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PROPOSED 5-YEAR PLAN FOR OIL AND GAS DEVELOPMENT IN THE OUTER CONTINENTAL SHELF

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY CONSERVATION AND SUPPLY

OF THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

TO

REVIEW THE SECRETARY OF THE INTERIOR'S PROPOSED 5-YEAR PLAN FOR OIL AND GAS DEVELOPMENT IN THE OUTER CONTINENTAL SHELF PURSUANT TO THE OUTER CONTINENTAL SHELF LANDS ACT AMENDMENTS OF 1978, PUBLIC LAW 95-372 (43 U.S.C. 1801)

OCTOBER 6, 1981

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PROPOSED 5-YEAR PLAN FOR OIL AND GAS DEVELOPMENT IN THE OUTER CONTINENTAL SHELF

TUESDAY, OCTOBER 6, 1981

U.S. SENATE,
SUBCOMMITTEE ON ENERGY CONSERVATION AND SUPPLY,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 8:45 a.m., in room 3110, Dirksen Office Building, Hon. Lowell P. Weicker, presiding.

Present: Senators Weicker and Murkowski.

Also present: Gary Barbour, professional staff member.

OPENING STATEMENT OF HON. LOWELL P. WEICKER, JR., A U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator WEICKER. This morning, we hear the testimony of several witnesses regarding the proposed 5-year plan for offshore oil and gas exploration and development.

On July 10, 1981, Secretary of the Interior James Watt announced a proposal to dramatically revise the Nation's approval to leasing OCS lands for oil and gas development from 1982 to 1986.

In his news release, Secretary Watt said, "This is the most important oceanic and energy proposal of the Reagan administration."

The program calls for 42 lease sales covering nearly 1 billion acres which include most of the Continental Shelf. It changes the assessment process from tracts which are 3 miles by 3 miles inside to planning areas ranging in size from 9 million acres to 160 miilion acres. Areas to be offered include Georges Bank, Bristol Bay, and other major fishery grounds.

It is the concern of this subcommittee that the fervor with which the Department of the Interior is approaching the OCS lease sale process could be detrimental to the protection of environmentally sensitive areas and the rich fishing grounds of areas like Georges Bank.

In 1978, this committee worked long and hard to develop a comprehensive package of amendments to the OCS Lands Act to address the national interests in future OCS activities. The OCS Lands Bill Amendments of 1978 did not satisfy everyone; however, it is basically sound.

In light of attempts to get around provisions of the act, along with the attempts to eliminate the Coastal Zone Management program, and I had in my original statement to eliminate States from the preleasing Federal consistency provisions of the Coastal Zone

Management Act although it is my understanding the administration has withdrawn that aspect, one wonders if congressionally mandated laws mean anything to the Department of the Interior.

It is my hope that this hearing will answer this and other questions surrounding the proposed 5-year lease plan.

I would hope that everybody would speak their minds on this subject. If there seems to be a tilt in my opening statement toward the environmental aspects of the problem, I think it has to be pointed out that I have long advocated the proper use of offshore lands for oil drilling. It is also true I have been fairly active in the proper development of our oceans' resources in terms of food, and more particularly I have been concerned with the area around Georges Bank.

It will certainly be my purpose to bring balance to these hearings because there is no reason why both the quest for energy and the quest for food cannot take place in this new frontier. It is a resource which should last for thousands of years and not just satisfy the one generation.

It is with that in mind that I would hope that we could work with the administration in producing a program that is environmentally sound while allowing us to pursue our other interests.

Senator Murkowski will be joining us shortly. I will insert his prepared remarks in the record at this point.

[The prepared statement of Senator Murkowski follows:]

STATEMENT OF SENATOR FRANK H. MURKOWSKI
SUBCOMMITTEE ON ENERGY CONSERVATION AND SUPPLY
OCTOBER 6, 1981

MR. CHAIRMAN, IT IS A PLEASURE TO BE PARTICIPATING IN THESE OVERSIGHT HEARINGS ON THE PROPOSED OUTER CONTINENTAL SHELF LEASING SCHEDULE. ALTHOUGH I AM NOT A MEMBER OF THIS SUBCOMMITTEE, THE STATE OF ALASKA WILL BE SERIOUSLY AFFECTED BY THIS SCHEDULE, AND I WANT TO BE SURE THAT OUR INTERESTS ARE REPRESENTED. AS YOU KNOW, THE DEPARTMENT OF INTERIOR'S NEW SCHEDULE CONTAINS PROPOSALS FOR 42 NEW LEASE SALES; SIXTEEN OF THOSE SALES WILL BE HELD IN MY STATE. THIS MEANS THAT ALASKA'S VAST COASTLINE WILL BE CONFRONTED WITH THIRTY-EIGHT PERCENT OF THIS NATION'S OUTER CONTINENTAL SHELF OIL AND GAS EXPLORATION.

MR. CHAIRMAN, I HAVE ALWAYS SUPPORTED EFFORTS BY OUR GOVERNMENT TO DIMINISH OUR DEPENDENCE ON FOREIGN SUPPLIES OF ENERGY. ALASKA REALIZED THAT IT MUST PLAY A KEY ROLE IN THE DEVELOPMENT OF THAT ENERGY INDEPENDENCE. BUT MY STATE CONTAINS MANY RESOURCES ASIDE FROM OIL AND GAS AND MANY OF THESE RESOURCES WILL BE AFFECTED BY EXPLORATION ON THE OUTER CONTINENTAL SHELF.

I WAS EXTREMELY PLEASED THAT THE SECRETARY OF INTERIOR, MR. WATT, TOOK TIME FROM HIS BUSY SCHEDULE TO VISIT ALASKA TO ASSESS THE EFFECTS OF THE LEASING SCHEDULE. HIS VISIT PROVIDED THE DEPARTMENT OF INTERIOR SOME MUCH NEEDED INSIGHT INTO THE UNIQUE NATURE OF MY STATE AND ITS CONCERNS ABOUT OFFSHORE DEVELOPMENT. MR. WATT MADE EFFICIENT USE OF HIS TIME BY VISITING A BROAD CROSS SECTION OF OUR STATE AND SPECIFICALLY VISITED THE COASTAL ENVIRONMENT OF BRISTOL BAY. BRISTOL BAY, MR. CHAIRMAN, IS THE HOME OF THE MOST SUCCESSFUL AND PRODUCTIVE SALMON FISHERY IN THE WORLD AND WE MUST BE CERTAIN THAT IT IS CONSIDERED WHEN THE LEASING PROGRAM BEGINS.

THE SALMON FISHERY IN THAT AREA PROVIDES THE LIVELIHOOD OF A SUBSTANTIAL NUMBER OF ALASKANS AND IS A MAJOR COMPONENT OF ALASKA'S SECOND LARGEST INDUSTRY. THIS RENEWABLE RESOURCE HAS BEEN MANAGED EXTREMELY EFFICIENTLY AND SHOULD CONTINUE TO BE SUCCESSFUL FOR THE FUTURE. AS A RESULT, SERIOUS CONSIDERATION MUST BE GIVEN TO THIS AREA IN THE LEASING PROCEDURE.

I AM ALSO PLEASED THAT MR. WATT MET WITH THE GOVERNOR OF ALASKA, JAY HAMMOND, TO DISCUSS THESE MATTERS OF GREAT CONCERN. I

UNDERSTAND THAT THOSE DISCUSSIONS ARE CURRENTLY ONGOING AND IT IS MY HOPE THAT THE TWO WILL SOON RESOLVE THEIR DIFFICULTIES.

I BELIEVE THAT THE DEPARTMENT OF INTERIOR IS ON THE RIGHT TRACK TOWARD DEVELOPING THIS NATION'S NATURAL RESOURCES IN AN EFFICIENT MANNER. THE PROPOSED LEASING SCHEDULE THAT IS NOW BEFORE CONGRESS DEMONSTRATES AN EFFORT TO ENHANCE OUR DOMESTIC ENERGY SUPPLY. WHILE I AM PLEASED TO BE INVOLVED IN THE CONGRESSIONAL REFINEMENT OF THIS SCHEDULE, I URGE THIS COMMITTEE TO BALANCE THE ENERGY NEEDS OF THIS NATION WITH THE OTHER MANY RESOURCES THAT COULD BE IMPACTED BY VASTLY INCREASED EXPLORATION OFF OUR COASTS.

Senator WEICKER. Our first witness is Don Hodel, Under Secretary of the Interior. He is accompanied by Robin West, the Assistant Secretary for Policy, Budget and Administration.

We are delighted to have you here. I had a nice chat with Don prior to his appearance and he indicated Mr. West is the expert in this field. The man on my left is my expert. Perhaps you and I can just sit back and watch the experts go.

Welcome. You may proceed.

STATEMENT OF DONALD P. HODEL, UNDER SECRETARY, DEPARTMENT OF THE INTERIOR, ACCOMPANIED BY J. ROBIN WEST, ASSISTANT SECRETARY, POLICY, BUDGET AND ADMINISTRATION

Mr. HODEL. Thank you, Mr. Chairman.

I appreciate the opportunity to be here and talk about this program and it may be useful to outline briefly the role that the Secretary and I played in this process.

Following his selection as Secretary of the Interior, we came onboard recognizing that the Outer Continental Shelf program was the most or one of the most significant energy aspects of the Department of the Interior. We also came onboard realizing that this country had an inordinate dependence on the importation of oil from outside its boundaries and particularly dependence upon a relatively potentially unstable Middle East. The incident with President Sadat this morning just emphasizes that one more time, that we are heavily dependent as a nation on the importation of oil. It is crucial to our economy and national security.

We do not know what our resources are in the United States on the Outer Continental Shelf that may be available to us for meeting those requirements.

We looked at the then existing 5-year schedule which had been approved by Secretary Andrus in 1980 and under the law we are permitted to review that 5-year schedule each year to determine whether it needs to be updated or modified.

In looking at that schedule and looking at the history of the Outer Continental Shelf program, we became very aware that with nearly 1 billion acres of Outer Continental Shelf since 1953 this Nation had managed to put up for lease about 40 million acres and had succeeded in leasing something less than 20 million acres of that area.

The Government was playing a very large role in the decision as to which tracts would be put up for lease. We felt what we needed to do was identify a system or process which would permit a more rapid evaluation or inventory of the potential of the Outer Continental Shelf.

We felt if we could devise or have devised for us by the professional people in the Department a method which would permit the people knowing the most about it, which is a combination of interest groups, to identify those areas with the greatest promise on the Outer Continental Shelf, that we might much more rapidly determine the extent to which the Outer Continental Shelf holds potential oil and gas finds for this Nation.

It is intriguing to think what the impact would be on the strategic planning and the energy planning and the national security

aspects for the Nation if we knew, for instance, there was one or more Prudhoe Bays out there.

Whether the decision was made to develop them forthwith or not, their existence would have a significant impact I suggest on policy considerations and conversely if it turns out there are no major finds left on the Outer Continental Shelf as we go through years of leasing, it also will have a significant impact on our strategic planning and it would have an impact on other energy activities and policy decisions made by any administration with regard to the development of coal and synthetic fuels and the like.

It is a very significant activity.

In July we proposed a revised 5-year schedule under which we intended to make much more of that Outer Continental Shelf available and hopefully all of the potentially high quality areas available for identification and leasing on a much more rapid schedule than was previously going to be the case.

I need to emphasize that it is in that proposal mode that we are still in at the present time. The comment period on that proposal does not close for another couple of weeks. Thereafter we will have the opportunity to review a mass of comments which have been provided to us by people who have considerably varying views on the Outer Continental Shelf program and then determine what if any modifications should be made in that proposal and then set it forth.

Mr. Chairman, we are at that stage. We have tried to develop a program and have turned to the people who are more expert in that.

We have tried very hard to provide the policy direction within the Department of the Interior and rely upon and utilize the professional expertise that is there.

We view this program as an important program from the energy standpoint and we also view it as an important program on the environmental side. On each of the sales that have been made this year pursuant to the existing schedule, the environmental impact statements are extensive and detailed and our conclusion has been in sale after sale that the comparative risks between tanker transportation of petroleum products and offshore development of them weigh very heavily in favor of offshore development rather than tanker traffic.

From an environmental standpoint, if the Nation intends to continue to be dependent upon oil, these are important considerations that we think favor the Outer Continental Shelf program. We have tried to be sensitive to that.

I am happy to be here today and will be most willing to try to answer questions you have. As you indicated, I have brought with me Robin West who is the Assistant Secretary for Policy, Budget, and Administration and within the Department of the Interior, the Outer Continental Shelf Office is under his direction and control. He has spent a good deal of time closer to that program and I suspect in addition he has brought with him his experts who are prepared to assist him in questions.

Senator WEICKER. Robin, do you have a statement that you wish to make?

Mr. WEST. I wanted to speak somewhat more specifically to the 5-year program, Mr. Chairman.

Senator WEICKER. Let me address one comment to Don in case he has to leave.

I want to make clear that I will try to translate this esoteric word, "environmental." I want to know if there are those in the Department of the Interior that are paying as much attention to the oil potential as to the fisheries potential. That is not talking environmental. We are talking about specifics. Let's talk about fish and oil.

My question is, Has the Department of the Interior involved themselves as deeply in the fisheries aspect?

Mr. HODEL. Mr. Chairman, I believe the answer is yes. I believe the Secretary and I have consistently raised those kinds of questions and not just with regard to fish. There are also other wildlife aspects.

There are safety and health questions. We have raised those. There are the potential coast line impacts of activities which we also have paid considerable attention to. We do also have the Fish and Wildlife Service in the Department of the Interior. They participate fully in each of these decision processes and in the environmental impact statement preparation and substantial environmental impact statement work is done.

I should say writing an impact statement may or may not be a meaningful activity but I think from what I have seen in those impact statements, it is a meaningful activity. It has paid attention to fish and wildlife and coastal activities.

I believe we are trying to pay that kind of attention.

Mr. WEST. Mr. Chairman, one point I would like to mention is our continuing concern with the fishery resources. On the Georges Bank, which is a subject of a great deal of interest to you, this Spring we announced we would finance a biological study to monitor activities on the Georges Bank which I think indicates a willingness after the leases and after the Government has got the money to continue to take an interest and continue to try and protect the fishing resources and particularly when we get into the Georges Bank and such technical areas as the effect of muds and cuttings on benthic animals and things like that.

We want to work with the fishing community and we want to try to understand what is being done and to protect the resources.

Senator WEICKER. Have you developed a study and report on the effects of the oil spill in Campeche Bay?

Mr. WEST. I believe there have been several studies done between NOAA and the Bureau of Land Management. I do not think the study has been completed.

Senator WEICKER. It has not been completed?

Mr. WEST. That is my understanding.

Senator WEICKER. The information on which the study is based, is that firsthand knowledge of the officials of NOAA or the Bureau of Land Management or is it based on knowledge given to us by Mexican officials?

Mr. WEST. I believe the Bureau of Land Management put up something in the order of $800,000 to participate in their phase of the study. It is my understanding the Mexican officials would not

let the American officials onto the platform or into the immediate area.

Senator WEICKER. The reason I raised that point is we have the ultimate taking place in terms of what could go wrong and we still do not know what the effect was on the fish population in that area.

You indicate you have some money invested vis-a-vis the Georges Bank. The moneys appropriated for that, are they sufficient to have a continuing monitoring process take place? I understand this is only a 1-year contract.

Mr. WEST. I believe it has to be 1 year. I also believe that we have made it clear that we have made a commitment to do this on a continuing basis if needed.

Senator WEICKER. I am sure there will be other questions. Please proceed, Robin.

Mr. WEST. Following up on the Under Secretary's comments, I want to be a little more specific about the 5-year program and OCS specifically.

When the administration came in, we were obviously interested in increasing hydrocarbon production in a safe and environmentally sound way.

In 1980 the United States imported 6.2 million barrels of oil a day costing $78.6 billion. That is up from $32 billion in 1976.

In looking at various programs in the Department, I think one of the most startling facts about the OCS program is its extraordinary environmental record. The program produced last year an average of 760,000 barrels and 12.5 billion cubic feet of oil a day which is 1.5 million equivalent barrels of oil a day.

At the same time a great many individuals are concerned about another Campeche or another Santa Barbara catastrophy spill. In the last 10 years there were two spills in excess of 1,000 barrels for an aggregate of 11,435 barrels of oil spilled. That is a program that produces several hundred million barrels a year. It is a pretty safe program.

The other thing which is important to recognize about the OCS program is its extraordinary budgetary impact. Last year the program generated about $5 billion and this year we expect the program to produce in excess of $10 billion.

Another thing that I think is important to emphasize is the pace of OCS leasing or the production from OCS lands has fallen substantially in the last 10 years. We would be delighted frankly if we could get OCS production back up to where it was 10 years ago.

In 1971 the program produced 418 million barrels of oil whereas in 1980 the program produced 277 million barrels of oil.

In looking at the program at the beginning and deciding whether to increase it, one of the factors which urged us to go ahead with the GAO Report on the 5-year program which made several points, one, that leasing goals were not met and sales were often slipped hence making the program unpredictable, that unnecessary impediments to leasing were put up and promising acreage was not being offered.

The 5-year program which the Secretary has offered and it is now in the proposed program stage and the comment period closes on October 22, will accelerate the pace and streamline the activi-

ties and we will move from 42 sales in the next 5 years up from 36 sales; 16 sales off of Alaska versus 10 in the old program and 5 versus 4 off California and 6 in the Atlantic and 14 in the Gulf of Mexico. Reoffering sales will be dropped after next year.

The program has several factors. One is telescoping which saves time by eliminating overlaps. That will save about 3 months per sale. Second is the notion of streamlining which permits us to accelerate these programs because it provides area-wide studies. We want to use existing data.

Mr. Chairman, there is one point that I think is important to recognize. The largest body of environmental data on any subject anywhere in the world is the U.S. OCS. We now have invested $261 million at the end of fiscal year 1980 on the program.

We will be eliminating tract specific prelease studies and instead we will develop information which we feel is needed at the time for leasing decisions.

Another thing that is important to recognize under the program is the role of the States is unchanged. I have a small visual aid which I think indicates the important role the States play in both the pre-lease and post-lease phases.

Senator WEICKER. Let me say one thing that I admit to a bias on. I do not believe in States rights or State programs when it comes to the oceans. I think it is ridiculous. This is a resource which obviously knows no boundaries.

I am delighted to know the States are participating but I am more concerned with the attitude of the Federal Government.

Mr. WEST. The States have some legitimate problems. I think it is encumbent upon the Federal Government to try to be attentive to those problems as best we can.

The other point that is important under the new 5-year program as under the old program is the Secretary has a tremendous amount of discretion over what areas to include or not to include. Areas can be withdrawn if the Secretary feels they should be withdrawn.

We are still in the comment stage. After both the draft program and the draft proposed program, certain changes were made in light of comments by the States and also in light of comments by industry.

We have tried to use this comment period to learn something and modify the program.

I think the most important thing is the number of billion acres has been tossed around a great deal. I think really what we are seeking is not there, be a vast rise in the amount of acreage offered but there be a rise in the quality of acreage, that is to say the production off OCS lands. That is our goal.

I do have my experts, Mr. Chairman. They are Bob Rio from the Geological Survey and Don Truesdale from the Bureau of Land Management and Al Powers who runs the OCS Policy Office for me.

Senator WEICKER. I think you have answered the first question, which is to tell the committee your major reason for drastically accelerating the 5-year plan.

On the business of the planning areas, for example, the North Atlantic area ranges from the Chesapeake Bay to the Canadian

border and the South Atlantic area ranges from the tip of Florida to the Chesapeake Bay.

Do you really believe adequate information concerning fisheries, the environment and geohazards can be obtained in these areas?

Mr. WEST. Yes, sir. One of the things I think is important to recognize is as I said earlier there has been a tremendous amount of study already. On Georges Bank prior to the sale up there several years ago, $20 million had been spent. What we are trying to do is use a great deal of the information we have now.

In terms of the various studies on fisheries and geohazards, for the purposes of making decisions in the prelease phase, we do feel we have the information because the information required is less specific than is needed later in the permitting phase, which is tract specific. We would then have the ability to generate that information later if needed.

Senator WEICKER. How does Interior justify the reductions in the OCS environmental assessment program funding for 1982 already reduced in 1981 from 1980 when DOI is planning to speed up the entire leasing process?

The figures are for 1980, $45.7 million; for 1981, $35.1 million and for 1982, $27.8 million. The assessment program goes down while the scope of the program is drastically increased. I do not follow that.

Mr. WEST. I think there are several explanations. One is I think it is important to recognize there is a tremendous data base. In some cases we really do not have to keep studying and restudying the same problems over and over again.

The tract specific geohazard studies will be eliminated although there will be two other levels of geohazard studies done.

The program is a good program and a safe program. One of the reasons it has been that way is because there have been so many studies done and it has been very thorough. I think we have to recognize that we have a lot of the information now and we do not have to keep gaining that information over and over again.

Senator WEICKER. I remember when we had hearings in Boston. I think it clearly came through to me that we had less information on the Georges Bank. Maybe we have more information from the Gulf of Mexico.

Mr. WEST. We have not had a sale on the Georges Bank yet, Mr. Chairman. It was my understanding a lot of studies were brought for prelease evaluation. I think it is important to realize it is in the post-lease permitting stage where you get into more specific questions relating to what the effect of a specific activity on a specific spot would be and more studies are done at that time.

If it can be shown that we do not know enough, there is too much uncertainty, the question of whether permits should be issued—I know there was a long tug of war on the issuing of discharge permits with EPA at the outset.

Senator WEICKER. In a written response to a House question regarding the reduction of OCS environmental studies the Secretary said you have eliminated these activities which can be deducted and financed by the private sector.

Do you gentlemen believe the private sector is going to pick up these studies?

Mr. WEST. I think we were referring to geohazard studies, Mr. Chairman. It is important to recognize there are three different levels of geohazard studies. One is called type one, the reconnaissance study which is fairly broad but we know where the basic slopes and canyons and things like that are. The type two was the prelease tract specific geohazard study and the type three was the post-lease tract specific geohazard study.

One of the things we can do is provide—we know generally what is going on in the ocean floor in terms of the specific problems; industry has to come back to us and frankly we have enough information from the reconnaissance study to keep industry honest. We know what the basic structures are down there and the very technical questions in terms of siting platforms and things like that, we have enough information that we can guarantee their accuracy.

Senator WEICKER. I might add I was the only Senator and I believe a Congressman from New England who supported deregulation and decontrol consistently. It is politically very hazardous.

We had hearings the year before on Georges Bank. In the Act was the proviso that there would be ongoing monitoring while the bids, leasing and drilling was all going on. Nothing stopped. There was a provision that there would be ongoing monitoring. I have never seen such a flood of lobbyists from industry coming here and opposing that.

Here was a provision that to me was the least that should be done. Why do you feel the industry gives a damn about the environment aside from whatever television ads I see with fish swimming around the platform, why do they have any interest?

Why do you feel they are going to pick up the ball and run with it when they were against the Federal Government just monitoring? Why do you think you are going to get any better cooperation?

Mr. WEST. There are a lot of stipulations on tracts which require industry to do things. A stipulation is a contract between the lessee and the lessor. In a lot of cases they are simply required to do things and stipulations are often tract specific.

Second, we can require industry to do a lot of things. We would plan to continue to require industry to do things.

I think the third thing is in something like geohazards, in putting a platform on a muddy bottom, the person who theoretically has the most to lose is industry. There are certain kinds of problems which clearly it is not in their interest to do something cavalier. These platforms cost hundreds of millions of dollars.

Senator WEICKER. I have no doubt they will protect their investment. I am worried about how well they are going to protect mine and the people of the country.

Mr. WEST. I think what has impressed me about the offshore business and I am sure there are those who feel more should be done but the program has been pretty safe and has worked pretty well. It is a high technology business. It is a business which is centered on relatively few companies.

Senator WEICKER. I think it has been safe to the extent that the clamps have been put down and probably turned too tight, to the extent the type of drilling is not taking place that you would like to see. To come along and contribute all sorts of good will and good

faith to an industry that in my opinion has shown little responsibility as it relates to the environment, I think that is putting in a lot of faith where their actions have yet to prove themselves.

Mr. WEST. There are a lot of safeguards built into this. For operations, there are 19 different permits that are required. A lot of information is required before those permits can be issued.

Senator WEICKER. The testimony we took in Boston indicated that regardless of what the law said and this was under Andrus that really in effect EPA and several agencies, NOAA and the Coast Guard have really been told to cool it and not get into it too deeply, regardless of what was required by the law as a matter of administration policy.

Under the previous administration, the environmental safeguards have been sort of pushed off into a corner.

Mr. WEST. That certainly is not the policy of this administration. I do not think we want people—in the past occasionally I think unnecessary roadblocks have been thrown up at times but by the same token if there are necessary safeguards—the reason the program can proceed and the reason we want it to proceed is because it has been so safe.

I have met with state groups and I said, keep the program or if the program is safe, be fair enough to admit it is safe. I have told industry groups that the only basis on which the program can proceed is if it is safe. I think both communities have a burden.

Mr. HODEL. Mr. Chairman, we do not abdicate that responsibility nor do we intend to under the approach we are taking. As Robin indicated earlier, we do not know there will be a great many more acres actually leased.

In response to your question of how do we plan to do the environmental work that has to be done with regard to the acreage if it is in fact leased, especially in the early years, we should not be reviewing a significantly different number of acres.

With the streamlining that has been talked about and a comparable number of acres, we ought to be able to provide at least the same level of environmental sensitivity that has been provided in the past. We hope the quality of the acreage will be improved and there might be the significant difference between the two programs.

If over time the industry develops increased capability to lease, we will necessarily have to have increased capability to process lease applications. At the present time we think we can do both because of this modification in the program.

Senator WEICKER. I noticed in an article in Business Week a statement:

> A major element of President Reagan's energy policy is to speed up the leasing of federal offshore areas for oil and gas exploration. Some of the nation's largest oil companies are questioning whether they have the manpower, equipment and money to cope with an accelerated pace in lease sales.

Can you respond to that?

Mr. HODEL. That question has been raised and I am sure Mr. West can respond in more detail. It was one which rose fairly early following the announcement by the Secretary of the proposed 5-year schedule.

I think in part it was based upon an assumption on some people's part that we were proposing in fact to lease 200 million acres

of land a year. Nobody believes that would be desirable because many of those acres have no known reason to believe there are any hydrocarbons present. Secondly, we do not think the industry is remotely capable of bidding on anything approaching that number of acres.

I think what happened was the assumption we were going to lease 200 million acres when in fact we do not see a significant change in the number of acres or tracts that would be leased. We think the industry response or some of those industry responses were based on that misunderstanding initially.

There are possibly people who would just as soon continue to see a fairly restricted market provided by the Government. It does not broaden the competitive situation nearly as much and it does not put the burden on the potential bidder to assess as many potential acres. That may be a factor in some thinking. I simply cannot evaluate the source of their concern.

Senator WEICKER. What kind of coordination in developing this plan do you have with NOAA?

Mr. WEST. NOAA as with every other governmental agency has the opportunity to reply.

Senator WEICKER. Have you been in communication?

Mr. WEST. Yes, sir.

Senator WEICKER. EPA also?

Mr. WEST. Yes, sir.

Senator WEICKER. In a substantive way? What has been the nature of the communications?

Mr. WEST. The nature of the communication has been to show them the plan and then they have provided back to us written response. Their responses have been included in the record.

Senator WEICKER. Without in any way trying to——

Mr. WEST. One point just mentioned to me is NOAA manages about half of our enviromental studies program. NOAA is involved.

Senator WEICKER. I think that is important. I think I might suggest that there might be the opportunity for some input from this committee. A lot of this might be ironed out right at the outset while the plan is being devised.

It just seems to be a matter of commonsense that there should be communication between those who are intimately involved with the problem and the Secretary's Office before something happens. Instead of having a potential adversary on the Hill, you have a friend.

Mr. HODEL. Mr. Chairman, that advice is well taken. I think we would very much like to take the opportunity to do that kind of consultation. I hope it would not seem too late on this particular effort. We are still in the proposal stage.

Senator WEICKER. Maybe Robin and Bob Wicklund can put their heads together.

I would only hope in this matter there are really two great sources involved, energy and food, that the policies have equal consideration.

Other questions I have can be submitted for the record. I thank you gentlemen for appearing. Let me reinforce the points in the sense of impact on the citizenry of this Nation. I would prefer the monitoring and enforcement be in the hands of the Department of

the Interior rather than in the oil companies. I am not being facetious. They are in there to make a profit. They are doing their thing. They are not the U.S. Government. Their interest is not necessarily that of all the people. I think that duty evolves on your shoulders.

Mr. HODEL. Mr. Chairman, we agree with the conclusion that duty does fall upon our shoulders. I would like to emphasize that Secretary Watt in spite of some of the things that may be said about him has been consistent throughout in his assertions that he intends to fulfill those obligations and with regard to the Outer Continental Shelf has been attacked for proposing Federal Government activity in what is viewed as a State's rights issue by some people.

We have consistently taken the position that the land of the Outer Continental Shelf from 3 miles on out is a resource of the United States of America and not of any individual State and therefore it is not a States rights issue in the normal sense. This portion or this decision as to what to do with those resources—those resources are not just oil and gas and they are not just fish or manganese or other minerals—there are all kinds of uses and needs for that area that need to be weighed and balanced.

I can assure you we are very much concerned and are genuinely trying to make a proper balance which means many people on all sides of the issue will from time to time disagree with the manner in which we are trying to do it.

I hope we can be responsive to this committee and to you and your concerns. I am sure Robin will be meeting with your staff and we will welcome your assistance.

Senator WEICKER. Thank you.

[The prepared statements of Mr. Hodel and Mr. West follow:]

Testimony of Donald Paul Hodel, Under Secretary of the Interior
Before the Subcommittee on Energy Conservation and Supply
The Senate Committee on Energy and Natural Resources
October 6, 1981

Chairman Weicker, members of the subcommittee. Thank you for the invitation to appear before you to discuss the Department's proposed 5-year OCS oil and gas leasing program. Secretary Watt regrets that he cannot be here himself and has asked that Assistant Secretary West and I present the Department's position and answer any questions you may have on this very important initiative. I have been personally involved in the policy development of this newly proposed program and Mr. West is responsible for its implementation and management.

Shortly after the Secretary and I took office, we realized that there were serious flaws in not only the scheduling of lease sales, but also in the way the offshore leasing program was being managed. We viewed the program as one with a great deal of promise. The undiscovered resources [redacted] thought to be significant and the environmental safety record compiled to date was impressive. Yet, nearly all the new discoveries were occurring in the Gulf of Mexico, it was taking an inordinate amount of time to prepare for sales, and the testing of high potential areas needed to be accelerated. We suspected significant improvements were possible.

We directed the Interior OCS staff to propose ways to "streamline" the program so that it could play its proper role in meeting energy and economic needs, without sacrificing its fine environmental record and without jeopardizing the rights of the coastal States to have their say in program implementation. We believe the proposal announced this July meets those objectives and we are enthusiastic that this revamping of the program will

allow it to be much more responsive to the needs of the 80's.

We recognize that in order for it to be properly carried out, it will require "hands on" management and a commitment at all levels in the Department to quality performance. The Secretry and I are personally committed to such requirements and have conveyed this commitment to all levels of the bureaucracy. We are enthusiastic that we have proposed a program that can be a model of efficiency

-- for expediting the search for new sources of oil and gas;

-- for forging a partnership with the coastal States; and

-- for maintaining a standard of excellence in environmental and safety performance.

Mr. West will now address the details of this new proposal. I am also happy to answer any questions you may have.

Testimony of J. Robinson West, Assistant Secretary--Policy,
Budget and Administration
Before the Subcommittee on Energy Conservation and Supply
The Senate Committee on Energy and Natural Resources

October 6, 1981

Chairman Weicker, members of the subcommittee. Thank you for the opportunity to discuss the Department's proposed 5-Year Outer Continental Shelf (OCS) Oil and Gas Leasing Program.

We believe the newly proposed leasing program is one of the most important energy initiatives of this Administration and is an important component of the President's economic recovery program. The search for OCS oil and gas is one of the best investments our Nation can make to increase the productivity of our economy.

It is also an initiative we can undertake with confidence. OCS oil and gas operations have an excellent environmental and safety record--better than most other major sources of energy--and the machinery is in place to ensure that this high standard of performance will continue to be met.

I would like to outline briefly for you the development process and key points of the proposed program.

As you know, the 1978 Amendments to the OCS Lands Act require, among other things, that the Secretary of the Interior prepare a 5-year OCS leasing program. The amendments establish the procedures to be used in preparing the initial 5-year program and in making significant changes to it. They also require that the Secretary review the program annually.

The first annual review was started in December of 1980 and completed in February of this year when Secretary Watt directed that the machinery be put in motion to change the leasing program. We believe that the June 1980 leasing program falls short of making a proper contribution to our national energy effort. It will not result in a quick enough inventory of our offshore oil and gas resources. Our newly proposed 5-year program will not only increase the pace of the inventory, but it should result in a more complete and efficient effort.

In April, a Draft Proposed 5-Year Program, together with a request for comments on streamlining the leasing process, was published in the Federal Register and transmitted to the coastal State Governors. We received nearly 100 comments on that draft. After careful review of those comments, Secretary Watt in July announced the Proposed 5-Year Program, which is the second opportunity for review. This proposal was transmitted to the Congress, the coastal Governors, and the Attorney General, and published in the Federal Register. Comments on this proposal are due October 22nd. Also, a Draft Supplemental EIS on the proposed schedule was published in June and public hearings were held in July. The Final Supplemental EIS is scheduled for release in late October. The Secretary will make a decision at the end of this year on a Proposed Final 5-Year Program which will be transmitted to the President and the Congress. Approval of the final leasing program cannot occur until 60 days after the proposed final program is issued. We anticipate approval in early 1982.

Our proposed program includes planning areas on the OCS totaling about 875 million acres; we expect that most of that area will be open for bidding one or more times during the 5-year period, January 1982 through

December 1986. We are proposing a total of 42 sales during this period, whereas the June 1980 schedule, which this program will replace, called for 36 sales during its 5-year period, June 1980 through June 1985. The proposed program places greater emphasis on unexplored areas off Alaska by planning for more sales there--16 compared with 10. It also calls for five sales off California as compared with four in the 1980 schedule. It calls for six sales in the Atlantic and 14 in the Gulf of Mexico. Finally, the proposed program schedules repeat sales at more frequent intervals than does the June 1980 program.

While a direct comparison between the two programs is not possible because they cover different 5-year periods, the changes in the rate and extent of proposed leasing are clear--more high quality areas will be offered for leasing sooner.

The enhanced pace of leasing is made possible, in large part, by plans to streamline the pre-sale planning process. We believe that it is necessary to streamline the process because under the June 1980 schedule, the Department was planning to spend in some instances close to four years preparing for a lease sale. We suspected that there were inefficiencies in the system, and we were right.

Streamlining is really made up of two separable components. The first is what I call "telescoping," which is executing certain steps together instead of one at a time. Telescoping shortens the period required to prepare for a sale by about three months.

One element of telescoping includes issuing the proposed Notice of Sale and asking Governors of affected States for their comments on the size, timing, and location of the proposal during the same month in which the final EIS is issued. The current practice has been to issue the

proposed notice two months after the final sale EIS. Another month can be picked up by DOE conducting its statutory review of certain lease terms and conditions at the same time the Governors are preparing their comments.

The second aspect of streamlining involves substantive changes in the way we prepare for sales and in the composition of the sales themselves. It involves a shift in focus from studying the offering of a relatively small number of scattered tracts to studying the offering of entire planning areas. In the proposed program, potential sales will be studied in seven planning areas off the contiguous 48 States and 11 areas off Alaska, ranging in size from 9 million acres to 120 million acres. For the most part, area delineations are based on geologic considerations--generally, basins are not split but may be grouped where appropriate. With the exception of sale #100, South Alaska, which may include four planning areas (Cook Inlet, Shumagin, Kodiak and the Gulf of Alaska), each sale will involve one planning area. Once a planning area is included in the schedule, all but special portions of it will be subject to the Call for Information. This new approach results from the following changes in the planning process:

First, a Call for Information replaces the Call for Nominations and Comments. We will now request potential bidders to outline broad areas where they believe hydrocarbons may occur and where they have an interest in leasing, rather than asking for tract-specific nominations. Other interested parties, such as States and environmental organizations, will have the same opportunity to comment and identify their concerns as they have had in the past.

Second, we propose deleting as a planning milestone "Tentative Tract Selection," the step which has been used to determine which specific

tracts will be studied in an EIS, and substituting the new milestone "Area Identification." At this stage, if we identify any portions of the planning area where we believe that oil and gas activities would be incompatible with other uses of the area, such as military operations, we could exclude such areas from further consideration, if it is clear that it is appropriate to do so. We will also use the responses from potential bidders to the Call for Information and identify the favorable geologic areas, taking into account the collective judgment of the oil and gas industry and the U.S. Geological Survey.

The EIS will be prepared on the entire planning area, less any portion deemed unavailable for oil and gas activities, and will include as an alternative the offering of the favorable geologic areas. The standard scoping process required by CEQ regulations will be used to identify options for analysis in the EIS for deletion of particularly environmentally sensitive areas, as well as for development of mitigating measures. This aspect of the planning will not change from current practice.

Third, the EIS prepared for the first offering in a planning area under the new concept will emphasize analysis, rather than description, and the aggregate of exploration and development activity that might occur within the entire planning area, if all the resources in the planning area are developed. It will, therefore, provide an improved assessment of expected cumulative effects as well as an assessment of the effects that we believe will likely occur from the sale proposal under study. We will be able to get an early start on the analysis since we will not have to await identification of specific tracts as has been necessary in the past. The analysis will begin in many instances a year before the Call for Information is even issued.

The NEPA document prepared for the second area-wide offering in an area will update the EIS for the first offering with information that has become available since the first document was prepared. This information will include results of ongoing environmental studies and monitoring projects as well as information from any exploration activities that may take place during this period. It is expected that the second document will be shorter and take less time to prepare than the initial planning-area EIS.

Fourth, BLM's Environmental Studies Program and the USGS's regional geohazards investigations will be phased to provide a level of detail in environmental information appropriate to decisions at each step in the process. This approach recognizes that the lease sale is only one of many decision and control points leading to exploration, development and production. It is neither feasible nor necessary to have a precise understanding of all of the possible environmental risks and multiple-use conflicts of the entire process prior to a lease offering. This is primarily because the location and quantity of oil and gas is not precisely known.

These programs will stress large-scale reconnaissance studies and address generic issues. The level of specificity of some of the reconnaissance efforts will be less than in earlier studies, primarily because recent experience has demonstrated that detailed, site-specific information can be of limited use in the pre-sale phases of the program and may not be useful at all after a sale if there are no discoveries or if they are not of the expected quantity or location. The study effort will also emphasize greater use of existing information, rather than generation of detailed new analyses of the potential effects of oil and gas activities, because the timing and location of such activities is still very uncertain

at this planning stage.

Fifth, pre-sale tract-specific geohazard information will no longer be gathered by the Federal Government to be used for tract deletion decisions. Instead, we will rely on the USGS regional geohazards studies in making sale decisions. The more detailed tract-specific geohazard information required of lessees prior to approval of exploration and development and production plans together with the USGS regional information will be used by USGS in evaluation of both types of plans to make sure that proposed operations are properly designed and safe.

Sixth, the Geological Survey's existing and updated hydrocarbon resource estimates will be used in the EIS analysis for the broad planning areas instead of preparing new estimates for specific tracts scattered over an area as has been the past practice. This change will result in a considerable time and dollar savings to the Government. BLM will continue to use the same type of modeling techniques for EIS preparation as it has in the past. Under the old process, analytical work had to wait until after tentative tract selection and completion of GS's tract-specific estimates. However, because existing on-the-shelf hydrocarbon resource assessments will be used, analytical work can begin immediately following adoption of the leasing program.

Finally, the estimates of individual tract values will be completed after the sale rather than before it. This will allow us to evaluate only those tracts receiving bids rather than all tracts offered for lease. While the USGS will continue to evaluate all proven, development and drainage tracts, increased reliance will be placed on competition to establish fair market value. We are still working on the details of the fair market value evaluation system, but we believe these changes will make the

evaluation more efficient because we will not analyze tracts that do not receive bids.

That, in a nutshell, is the essence of the proposed leasing program which is out for comment. There are a few general remarks I would like to add to explain why we think a new program is necessary and why it makes sense.

In the past ten years, there has been only one commercial discovery in a frontier area--the Beta Field off southern California. We must do better. Our current estimates indicate that there are significant amounts of undiscovered hydrocarbon resources on the OCS--up to 43.5 billion barrels of oil and 230.6 trillion cubic feet of gas. In 1980, we imported an average of 6.2 million barrels of oil a day at a total cost of $78.6 billion for the year, up from $4.6 billion in 1972 and $32 billion in 1976. Because OCS oil and gas costs the Nation much less than imports, the economic losses generated by this huge oil import bill can be reduced by finding more hydrocarbons and realizing the significant economic gains from their production.

During the period that the cost of imported energy has increased by huge amounts, we have seen oil production from OCS lands steadily decrease. Table I indicates the trend. Annual OCS oil production declined from 418 million barrels in 1971 to 277 million barrels in 1980; a 33 percent decrease. Table II indicates that while OCS gas production has been steadily increasing, it declined slightly in 1980 to 4.64 trillion cubic feet. These declines are unnecessary and unacceptable. Over several years, faster leasing of the more promising areas under our streamlined system could reverse this trend.

The reason we are optimistic the trend will be reversed rests with the rationale behind area-wide offerings. Let me run through it quickly with you.

° Significant domestic energy resources are believed to be located on the OCS, but the precise quantities and locations are unknown because promising frontier areas have not been explored adequately. They need to be inventoried.

° Different geologists have different views on the probable location of oil and gas in any one planning area.

° The best way to accelerate discovery of significant oil and gas deposits is to encourage companies to pursue unique and diverse exploration strategies based on these different views.

° In the current system the Federal Government makes judgments about which tracts are or are not likely to be bid on. The proposed system will allow companies to concentrate their efforts on tracts they consider most promising.

° The diverse exploration strategies which will be tested under the new system are necessary in order to fully test an area. Only a small percentage of a planning area will contain economically producible resources and it may slow the geologic delineation of an area if portions of it are made available on a piecemeal basis.

° Area-wide offerings will allow potential bidders to continue to benefit from new information and analysis acquired right up until the time of the sale in determining what portions of a planning area are promising.

The history of the search for hydrocarbons contains many examples of years of fruitless drilling in a region, then suddenly a commercial find,

followed by continued successes. Prudhoe Bay in Alaska, the Hibernia field in the Canadian Atlantic, the North Sea, are all prime examples of this scenario. We believe that by broadening the menu industry can select from, we will expedite this process in those OCS areas where commercial deposits of hydrocarbons may eventually be found.

Also, at a time of heated budgetary debates, the OCS program continues to contribute substantially to the receipts side of the budget ledger and has the potential for producing more. Already this year, some $5.03 billion has been taken in from bonus bids for lease rights. We will surely break the old high mark of $5.08 billion set in 1979. It is entirely likely that this year the OCS program will generate over $10 billion for the Treasury in bonus bids, rentals and royalty payments. The OCS program will also generate substantial income tax payments, create numerous jobs, and reduce the export of dollars to OPEC nations.

Table III portrays some of the results of the OCS program from 1976 through 1981. It illustrates that in 1976 we held four lease sales and offered 2.8 million acres for lease. About 1.3 million acres were leased for bonus bids totaling $2.2 billion. About $700 million was received that year in royalty payments to the U.S. Treasury. The numbers dropped substantially in 1977, rose in 1978 and again in 1979 to several record highs. In 1980, the acreage offered, the acreage leased, and the revenues were at high but not record levels.

However, the period 1976-1980 saw only four very promising frontier OCS areas opened for the first time for exploration--the North and Mid-Atlantic, the Beaufort Sea and the Gulf of Alaska. This pace was too slow, considering the many highly promising areas that have yet to be offered. If our goal is to increase production and economic benefits, we must offer for

lease the most promising areas, so long as the environmental risks are acceptable and there is a reasonable balance with the well-being of the citizens of the affected States.

I also want to lay to rest the notion that our proposed program will result in massive amounts of acreage being leased. While we expect more acres to be leased than under the June 1980 schedule, the emphasis in this new program is on quality, not quantity. We expect that industry will only bid on a small portion of the total offered over the next 5 years. The small portion will, however, be the most promising--the most promising in the eyes of the full spectrum of industry scientists rather than in the judgment of the Federal Government.

I want to assure you that participation by the States and concerned public will not be diminished under this new system. There will be as many opportunities as there have been in the past for all interested parties to comment and participate. This Administration places great emphasis on the value of State views and will in no way undermine their right and opportunity to participate in the OCS leasing program. I believe the effectiveness of this policy can be clearly seen in the rapprochement Secretary Watt has initiated with Governor Jay Hammond of Alaska, on both onshore and offshore energy matters. This close relationship between the State of Alaska and the Department of the Interior is in marked contrast to the contentious relationship during the last Administration.

To illustrate how our new program will respond to concerns of interested parties, let me run through the different points in the process for deletion of

tracts. Deletion of tracts from planning areas considered for leasing may occur at four points. First, the Call for Information will, under special circumstances, exclude any portion of a planning area which is known not to be available for oil and gas leasing. The statutorily excluded area off Point Reyes National Seashore is an example of this type of exclusion. Second, tracts may be deleted at the Area Identification stage based on such considerations as unresolvable conflicts with the military uses. Third, tracts may be deleted in the proposed Notice of Sale. This notice will be issued the same month as the final NEPA document, and environmental or other concerns raised during pre-sale planning may result in specific tract deletions at this step. Finally, after the State review guaranteed under section 19 of OCSLAA is completed, tracts may be deleted pursuant to recommendations from a Governor or the executive of an affected local government if the Secretary determines that these recommendations "provide for a reasonable balance between the national interest and the well-being of the citizens of the affected State."

You may also be interested in knowing our responses to the GAO report, Issues in Leasing Offshore Lands for Oil and Gas Development.

First, the report recommends taking appropriate steps to ensure that sales are held as scheduled, thus providing a greater degree of credibility to the leasing program. We appreciate that the significant investment of resources involved by interested parties in preparing for a sale argues in favor of making only insignificant changes to a lease schedule once it is in place. Based on the annual review of the program, it was our judgment that the important changes called for in the June 1980 schedule outweighed this concern. We are optimistic that the results of the comprehensive review we are undertaking will result in a well structured

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and ambitious program which will meet the needs of the 80's and that in addition to extending the program only minor changes will be necessary over the next five years. Further, the proposed schedule includes all of the important sales of the June 1980 program and provides for more rapid reentry into areas of high potential.

Second, the report recommends that streamlining efforts should be continued. As I have stated previously, we are moving ahead with our streamlining proposals. The program currently out for review incorporates many innovative ideas which will result in significant savings of time, without undermining the responsiveness of our planning process. Revising the system we use to prepare for sales has forced us to take a close look at each component of the process which, in the end, should result in an increase in quality and efficiency in the implementation of each planning step.

Third, the report recommends that alternatives be explored for leasing more of the tracts offered in a sale. Our proposal for area-wide offerings will result in industry having a much wider selection of prospects. No longer following the past practice of excluding large portions of planning areas from a sale should result in not only more acreage being leased, but more importantly higher quality acreage.

Fourth, the report recommends that the rationale for the withdrawal of offshore lands from leasing be reexamined. We agree. Although these lands are not "withdrawn" in the formal sense, this Administration opposes artificially restricting lands available for leasing. We believe that the OCS Lands Act, as amended, in conjunction with other statutes, provides sufficient regulatory authority to deal with environmental or other problems

that are perceived and thus mitigate the need for "withdrawals." National defense conflicts and international boundary conflicts are issues that are being addressed. We are meeting with the Department of Defense on a regular basis and have also corresponded with the Department of State in connection with development of the 5-year program.

Fifth, the report recommends that the USGS intensify its efforts to define more precisely the portions of the OCS that are potentially attractive for leasing. We believe that a more useful approach is to place more reliance on the judgment of the market in determining which portions of the OCS are promising and that our new planning process will do just that.

I also would like to elaborate on the point I made earlier that we can undertake this proposed program with confidence because of the excellent environmental and safety record the OCS program has compiled. Let me cite some statistics which support this position.

From 1956-1980, 18,625 wells have been drilled and 5.4 billion barrels of oil and 48.7 trillion feet of gas have been produced on the OCS. There has been only one major oil spill resulting in significant oil reaching shore--the Santa Barbara oil spill 12-1/2 years ago.

If we look at all OCS-related spills over 50 barrels which occurred in the last 10 years--from production operations, pipelines, fuel transfers, for example, the total amount of oil spilled in the U.S. from these incidents was about 56,000 barrels--less than that spilled in the Santa Barbara spill.

In the last six years, during which 3.4 billion barrels of oil were produced, such incidents have never resulted in more than 2,100 barrels spilled annually. Blowouts were responsible for only 725 barrels spilled in the entire 10-year period.

To put OCS-related oil pollution in perspective, consider the figure cited in the recent National Academy of Sciences report, "Safety and Offshore Oil," that only 57,000 barrels of oil were discharged in the four-year period, 1975 through 1978, as a result of OCS operations--both from accidental spills of all sizes, including transportation spills, and from routine discharges. That's an average of 14,250 barrels a year.

This compares to the following two sources of oil pollution:

-- A single tanker spill in December 1976--the ARGO MERCHANT spill off Nantucket--which released over three times as much oil--183,000 barrels of imported fuel oil, and

-- Natural seeps in the Coal Oil Point area which are estimated to contribute 22,000 barrels of oil a year to the Santa Barbara Channel.

The two major offshore spills which have affected the U.S. coastline--Santa Barbara in 1969 and the IXTOC spill in Mexican waters--both occurred in a regulatory framework far different from that which exists in the U.S. today.

The previously cited National Academy of Sciences report lists 74 sets of regulations affecting safety of OCS oil and gas operations, plus 24 sets of industry standards. Existing regulations currently require 17 major permits and plan approvals just to begin various exploration and development operations. Supervision of operations continues after production is underway.

These 17 major permits and plan approvals include exploration and development and production plans, EPA NPDES permits, Corps of Engineers ocean dumping and navigation permits, Coast Guard vessel certifications, lighting permits and others. The exploration and development and production plans themselves include requirements for numerous separate permits, surveys,

plans, etc. The exploration plan includes about 12 major requirements and the development and production plans over 20 separate elements. Major plans, approvals and other requirements of development and production plans, for example, include:

-- Air emissions data,

-- Safety Systems Design and Installation Plans,

-- Platform design, fabrication and installation plans,

-- Coastal zone consistency determinations,

-- Well site surveys for potential geohazards, and

-- Training requirements for personnel operating well control equipment and responsible for drilling techniques.

Not included in this total of major plans and permits are numerous other requirements, including, for example, notices detailing any deviations from the drilling permits, which may result in 10 to 15 notices per well; requirements for waste disposal; curbs, gutters and drains to collect pollutants; mud tests; blow-out prevention equipment and testing, casing and cementing of wells, and many more.

The overall safety record on the OCS is a good one, and its environmental risk is low compared to other contributors to marine pollution. For example, it is estimated that offshore production is responsible for less than 2% of the petroleum entering the world's oceans, a little over a half a million barrels worldwide--less than one-fifth of that contributed by natural seeps. Routine tanker operations, such as tanker washings and loading operations, contribute 29% of the oil annually entering the marine environment, or 13 million barrels, and tanker accidents another 5% or 2.3 million barrels. River run-off is responsible for 11.7 million barrels, and municipalities and industrial waste, 8.8 million.

Nonetheless, we are continually seeking to improve our regulations and enforcement and to learn about the environmental effects of OCS operations. By the end of FY 1981, BLM spent over $261.5 million in its environmental studies program. These studies help us to predict better any possible adverse effects and to design effective measures to limit such effects. Additional studies may even indicate that there is less concern in certain cases than previously expected. For example, studies on the Santa Barbara oil spill, the IXTOC spill and developed Gulf of Mexico oil fields have not, to date, shown any significant long-term environmental effects.

The actions of coastal States with regard to their own offshore oil and gas resources indicate that the States share the Department's views about the general safety of OCS development. California has recently approved drilling proposals in the Santa Barbara Channel, and the State of Alaska has its own offshore leasing program and schedule.

While future leasing in frontier OCS areas will present new challenges, our regulatory process is designed to address the adequacy of technology and operations on a case-by-case basis. In fact, the National Academy of Science report has concluded that existing USGS procedures for verifying the design of fixed structures should provide adequate assurance of the safety of subsea completions, deepwater structures and fixed arctic structures.

One other point which must be considered is that OCS-produced natural gas is equally as important as the oil produced offshore. Natural gas not only helps keep oil imports down by providing an alternative to electricity and heat produced with oil, but it is a superior fuel to other energy sources in terms of environmental effects. Through the end of 1980, 48.7 trillion cubic feet of natural gas were produced on the OCS. The estimated remaining natural gas on the OCS--up to 230.6 trillion cubic feet--could hypothetically replace less clean-burning fuels, up to 9.8 billion tons of coal or 42 billion barrels of oil.

In summary, we believe we have put forward a fresh approach to maximizing the contribution our nation's OCS hydrocarbon resources can make to our overall welfare, without putting important coastal and marine resources in jeopardy. We look forward to receiving the comments submitted on this proposal and are enthusiastic that our final program will allow us to make significant inroads in solving our nation's energy and economic problems.

This concludes my prepared statement. I am happy to answer any questions you may have.

Table I

OCS OIL AND CONDENSATE PRODUCTION

1970 - 1980

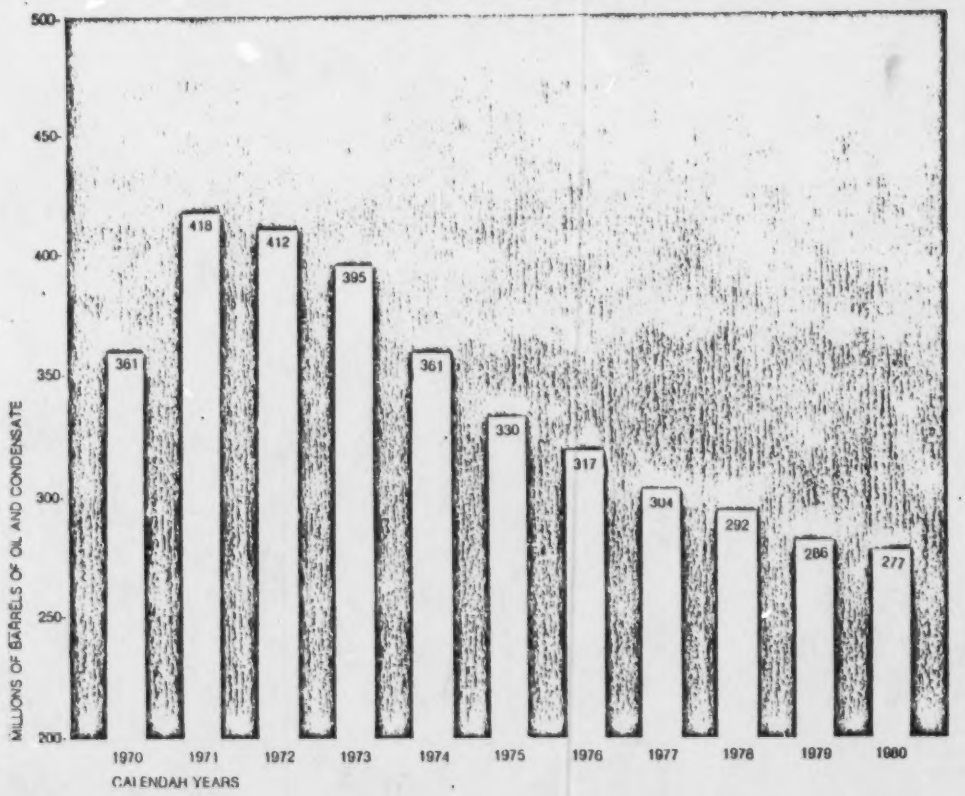

Table II

OCS NATURAL GAS PRODUCTION
1970 - 1980

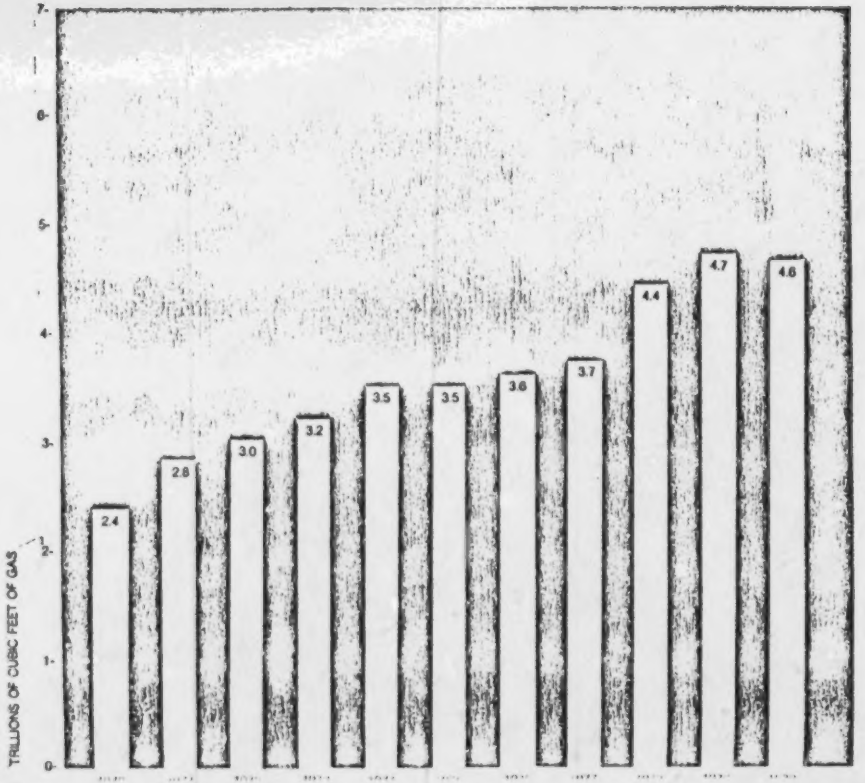

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Table III
OCS LEASING PROGRAM
1976 - 1981

Calendar Year	Sales	Acreage Offered	Acreage Leased	Bonus Paid (billions $)	Royalty Paid (billions $)	Total Revenue (billions $)
1976	4	2,827,342	1,277,936	2.243	.699	2.942
1977	2	1,843,116	1,100,741	1.569	.920	2.489
1978	4	3,140,696	1,297,280	1.767	1.150	3.917
1979	6	3,412,249	1,767,512	5.079	1.515	6.594
1980	3	2,563,452	1,134,227	4.205	2.137	6.342
1981	Sale 53	603,611	292,099	2.037		
	Sale RS-1	996,308	5,694	.0001		
	Sale A66	1,077,931	799,912	2.650		
	Sale 56	1,621,901	267,471	.343		
1981	Totals to date	4,299,751	1,365,176	5.030		
	Sale 60	858,246				
	Sale 66	1,081,365				
	Sale 59	1,440,376	(in proposed Notice of Sale)			

Senator WEICKER. Next the committee will hear from Charles DiBona, president of the American Petroleum Institute and Arthur O. Spaulding, vice president and general manager, Western Oil & Gas Association.

Gentlemen, I welcome you before the committee. Because of the time constraints and the questions and I am sure there will be additional statements you will want to make, I would appreciate it if you could summarize your remarks before the committee.

STATEMENT OF CHARLES J. DiBONA PRESIDENT, AMERICAN PETROLEUM INSTITUTE

Mr. DIBONA. Thank you, Mr. Chairman. I have a 10-minute summary but in the interest of time I will give you a 2-minute summary.

Senator WEICKER. I do not want to cut you off. I just want to be sure everyone is heard.

Mr. DIBONA. I am Charles J. DiBona, president of the American Petroleum Institute. API is a national trade association with membership that includes more than 300 petroleum companies of all sizes and about 8,000 individual members.

I appreciate the opportunity to participate in this review of the proposed 5-year leasing program for the Outer Continental Shelf. It is a pleasure to come to Capitol Hill to talk about good energy news for all America.

The new lease schedules proposed by the administration goes directly to the solution of America's greatest energy problem and most certainly is in the national interest.

As you know the United States has become far too dependent over the past decades on uncertain supplies of imported oil. That degree of dependency made our Nation particularly vulnerable to interruptions in the flow of foreign oil. Our vulnerability was clearly demonstrated during the Arab oil embargo in 1973–74 and the more recent curtailment of supplies from Iran.

The removal of price controls on domestic crude oil which you did support and I think correctly led to decreased consumption, increased output and a dramatic drop in imports.

In 1979 we imported an average of 8.4 million barrels of oil a day. Today oil imports have been reduced to 5.4 million barrels daily. The result has been significantly increased energy security for individuals and for the national economy.

We are not out of the woods yet. More needs to be done to assure greater American control over the sources of future petroleum supplies.

The new leasing approach in the proposed schedule keeps our country going in the right direction. If implemented substantially in its present form, the proposed program will provide dramatic new opportunities to find more domestic oil and gas.

We fully support the concepts in the new program that will move forward the date of many lease offerings, particularly in frontier areas; increase the number of lease sales held per year; streamline the leasing process; shorten the time and offer larger amounts of acreage to potential bidders.

Acceleration of the rate and scale of leasing is necessary to help reduce our dependency on foreign oil. We know that exploration on

Government lands can take place on an expanded scale with continued progress toward a cleaner environment.

More site specific environmental information will be obtained under the proposed program. At the same time the environmental safeguards now built into the system will remain in force. We believe that persons seriously concerned with protecting the marine environment will appreciate and support this new direction in obtaining such information.

Earlier this year I said that the petroleum industry supports the administration's objectives of exploring Government lands more quickly and more thoroughly, offshore and inshore for oil and gas. At that time I also said that the industry had been and was in complete agreement that more not less Government land should be inventoried and where promising, carefully explored and put into production.

Those views remain valid today. The petroleum industry fully supports the concept of increasing the size and frequency of OCS lease offerings.

Our industry is of course not monolithic. There are and there will continue to be differences of opinion among the many competing companies about the optimum size and scheduling of specific areas to be offered for lease.

This is as it should be. Each company has its own financial and technical resources and its own exploration strategy. Each company will base its concept of each year's optimum lease schedule on its individual company capabilities and goals.

The important issue is not the precise size or frequency of offerings but the directional change represented in the new 5-year lease schedule. That directional change as I noted earlier is in the national interest and will help reduce our dependency on foreign oil in several important ways.

First, the provision of more acreage will increase the number of high quality tracts that can be explored leading to more productive exploration. Larger amounts of acreage will insure that the most geologically promising tracts in an area are put on the market at the same time. This will help the industry use its exploration resources more efficiently and productively.

Having more tracts available for leasing means many individuals with different geological theories can put their ideas to the test of the drill bit.

These three factors will undoubtedly increase the number of participants in new OCS lease offerings. Thus the proposed program is good news, indeed.

It is well to remember that not all areas listed in the new schedule will be available for lease. The schedule announcement is the start of a careful review process that will limit bidders to the areas not in conflict with other statutory, defense, environmental, and coastal State priorities.

The proposed lease schedule does present the petroleum industry with challenges of unprecedented dimensions. Meeting those professional challenges will require the generation of large amounts of venture capital for lease acquisition, equipment purchase, and manpower development. It is clear, based on recent performance, that the industry will meet these challenges.

The industry's rapid response to improved economic conditions and exploration opportunities is a matter of record. There are some 260 offshore drilling rigs operating in U.S. waters and approximately the same number of new rigs are scheduled for completion by the end of 1985. That is doubling the amount of rigs available.

U.S. shipyards are expanding their capacity to build jackup and semisubmersible offshore rigs and the number of domestic firms building drilling rigs has been rising significantly.

Tubular goods production is also up substantially and a number of firms are planning to increase their tubular output capacity.

The number of drilling companies increased by 110 in 1980 and there was a 40-percent increase in the number of well service contractors.

The training of additional geologists, geophysicists, and engineers is proceeding rapidly.

For these reasons, our industry is able and anxious to meet the challenges proposed by the revised leasing schedule. The American people and the American economy will be the ultimate beneficiaries of an accelerated and expanded schedule.

I am sure you will agree that is good news. I am pleased to have the opportunity to be its messenger.

[The prepared statement of Mr. DiBona and an API news release follow:]

Statement by

CHARLES J. DiBONA

on behalf of the

AMERICAN PETROLEUM INSTITUTE

before the

SENATE SUBCOMMITTEE ON ENERGY CONSERVATION AND SUPPLY

October 6, 1981

Washington, D.C.

Thank you, Mr. Chairman. I am Charles J. DiBona, president of the American Petroleum Institute. API is a national trade association with membership that includes more than 300 petroleum companies of all sizes and about 8,000 individual members.

I appreciate your invitation to participate in this review of the proposed five-year leasing program for the Outer Continental Shelf (OCS). It is a pleasure to come to Capitol Hill to talk about good energy news for all Americans.

And this is good news. The new lease schedule proposed by the administration goes directly to the solution of America's greatest energy problem and, most certainly, is in the national interest.

As you know, the United States has become far too dependent, over past decades, on uncertain supplies of imported oil. That degree of dependency made our nation particularly vulnerable to interruptions in the flow of foreign oil. Our vulnerability was clearly demonstrated during the Arab oil embargo in 1973-1974 and the more recent curtailment of supplies from Iran.

The removal of price controls on domestic crude oil has led to decreased consumption, increased output and a dramatic drop in imports. In 1979 we imported an average of 8.4 million barrels of oil a day. Today, oil imports have been reduced to 5.4 million barrels daily. The result has been

significantly increased energy security for individuals and for the national economy.

But we are not out of the woods yet. More needs to be done to assure greater American control over the sources of future petroleum supplies.

The new leasing approach in the proposed schedule keeps our country going in the right direction. Increasing domestic energy development from all economically available sources -- coupled with continued conservation and market pricing -- offers the best hope for assuring reliable supplies of energy.

I believe -- and this belief is shared by our members -- that a necessary underpinning for that security is an accelerated and expanded lease schedule for the federal portion of the OCS.

The proposed program, if implemented substantially in its present form, will provide dramatic new opportunities to find more domestic oil and gas. And we fully support the concepts in the new program that will:

- One -- move forward the date of many lease offerings -- particularly in frontier areas -- in virtually all OCS areas;
- Two -- increase the number of lease sales held per year;
- Three -- streamline the leasing process;

- Four -- shorten the time between lease offerings in highly promising offshore areas, and
- Five -- offer larger amounts of acreage to potential bidders on which they can indicate their interest.

Acceleration of the rate and scale of leasing is necessary to help reduce our degree of dependency on foreign oil. And we know that exploration and production on government lands can take place on an expanded scale with continued progress toward a cleaner environment.

More site-specific environmental information will be obtained under the proposed program. At the same time the environmental safeguards now built into the system will remain in force. We believe that persons seriously concerned with protecting the marine environment will appreciate and support this new direction in obtaining such information.

Earlier this year, I said that the petroleum industry supports the administration's objectives of exploring government lands more quickly and more thoroughly -- offshore and onshore -- for oil and gas. At that time, I also said that the industry had been and was in complete agreement that more not less government land should be inventoried and, where promising, carefully explored and put into production.

Those views remain valid today. Therefore, the petroleum industry fully supports the concept of increasing the size and frequency of OCS lease offerings.

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Our industry, of course, is not monolithic. There are -- and there will continue to be -- differences of opinion among the many competing companies about the optimum size and scheduling of specific areas to be offered for lease.

This is as it should be. Each company has its own financial and technical resources and its own exploration strategy. And each company will base its concept of each year's optimum lease schedule on its individual company capabilities and goals. The important issue is not the precise size or frequency of offerings but the directional change represented in the new five-year lease schedule.

That directional change -- as I noted earlier -- is in the national interest. Making more acreage available will increase domestic oil supply and, therefore, reduce our dependency on foreign oil in several important ways:

First, the provision of more acreage will increase the number of high-quality tracts that can be explored. By offering larger amounts of acreage, the new schedule will make a greater number of promising tracts available. And that will lead to more successful, more productive exploration.

Second, larger amounts of acreage will ensure that the most geologically promising tracts in an area are put on the market at the same time. This will help the industry to use its exploration resources more efficiently. Instead of being forced to concentrate all drilling inefficiently over relatively small and disparate OCS areas, the new leasing

program will allow these resources -- capital, equipment and manpower -- to be deployed more optimally and used with less waste. This, too, should result in more productive exploration.

Third, having more tracts available for leasing means that many individuals with different geological theories can test their ideas in action. In other words, with more acreage to be explored, a greater number of people can apply a wider range of hypotheses to the test of the drill bit.

These three factors will undoubtedly increase the number of participants in new OCS lease offerings.

Thus, the proposed program is good news, indeed. The earlier, better quality and larger exploration opportunities will mean that we will know sooner how much oil and gas is out there. And the petroleum that is discovered will reach American consumers all the sooner.

It is well to remember, however, that not all areas listed in the new schedule will be available to lease. The schedule announcement is the start of a careful winnowing process that will limit bidders to the areas not in conflict with other national priorities.

A carefully focused leasing program will follow a four-step review process:

- some tracts will be eliminated for statutory and other reasons when the Call for Information is issued,
- others may be withdrawn because of conflicts with defense needs,

- still other acreage will be removed for environmental consideration following review of the Final Environmental Impact Statement, and
- objections by coastal state governors to the inclusion of other acreage could result in additional tracts being withdrawn.

The proposed lease schedule does present the petroleum industry with challenges of unprecedented dimensions. Meeting those professional challenges will require the generation of large amounts of venture capital for lease acquisition, equipment purchase and manpower development. It is clear -- based on recent performance -- that the industry will meet these challenges.

The companies did so in developing the new technology and equipment required for drilling in the treacherous waters of the North Sea. The economic and geological reasons to invest were there. The opportunity was there. And the industry met the challenge, found that oil and gas and is now delivering it to consumers in Europe and elsewhere.

The industry's rapid response to improved economic conditions and exploration opportunities is a matter of record.

- There are some 260 offshore drilling rigs operating in U.S. waters -- almost one-half of the total worldwide fleet. Moreover, approximately 267 new offshore rigs are scheduled for completion between now and the end of 1985.

- U.S. shipyards are expanding their capacity to build jackup and semisubmersible offshore rigs, and foreign shipyards are building offshore rigs for U.S. drillers. The number of domestic firms building drilling rigs rose from 10 to 17 over a period of less than five years.
- Tubular goods production is also up substantially -- 47 percent greater in 1980 than in 1979. Ten domestic firms are planning to increase their tubular output capacity, as are a number of foreign firms.
- The number of drilling companies increased by 110 in 1980 and there was a 40 percent increase in the number of well-service contractors.
- The training of additional geologists, geophysicists and engineers is proceeding rapidly. We see a significant increase in enrollments at universities and trade schools offering training in industry activities.

For these reasons, our industry is able -- and anxious -- to meet the challenges posed by the revised leasing program. But, the American people and American economy will be the ultimate beneficiaries of an accelerated and expanded schedule.

I'm sure you will agree that that is good news, indeed. And I am pleased to have the opportunity to be its messenger.

American Petroleum Institute
2101 L Street, Northwest
Washington, D.C. 20037
202-457-7028

news release

For Release at 8:30 a.m., Tuesday, Oct. 6, 1981

WASHINGTON, October 6 -- The President of the American Petroleum Institute said today that the directional change represented in the new five-year Outer Continental Shelf leasing schedule was in the national interest, would mean more production of oil and natural gas and would help reduce U.S. dependency on foreign oil.

Testifying before the Senate Subcommittee on Energy Conservation and Supply, API President Charles J. DiBona said that the offshore program prosposed by the Administration went "directly to the solution of America's greatest energy problem."

"The American people and the American economy will be the ultimate beneficiaries of an accelerated and expanded schedule," he declared, adding:

"The proposed program, if implemented substantially in its present form, will provide dramatic, new opportunities to find more oil and gas."

DiBona made these points:

-- Offering more acreage will increase the number of high-quality tracts that can be explored and lead to more productive exploration.

-- With most geologically promising tracts in an area being put on the market at the same time, the industry will use its resources more efficiently. Instead of being forced to concentrate drilling over small and disparate OCS areas, the new program will allow capital, equipment and manpower to be deployed optimally and that should result in more productive exploration.

-- Availability of more tracts means that many individuals with different geological theories can test their ideas and apply a wider range of hypotheses to the test of the drill bit.

(more)

2. Lease

The proposed program presents the petroleum industry with challenges of unprecedented dimensions, DiBona acknowledged, but he expressed his confidence that the industry will respond to the needs for venture capital, equipment and trained manpower. He said that the rapid response to exploration opportunities following the de-control of oil has resulted in building programs underway for 267 more offshore rigs, increased production of tubular goods, formation of more drilling companies and programs to train more geologists, geophysicists, engineers and others employed in the petroleum industry.

DiBona continued:

"Our industry, of course, is not monolithic. There are -- and there will continue to be -- differences of opinion among the many competing companies about the optimum size and scheduling of specific areas to be offered for lease.

"This is as it should be. Each company has its own financial and technical resources and its own exploration strategy. And each company will base its concept of each year's optimum lease schedule on its individual company capabilities and goals. The important issue is not the precise size or frequency of offerings but the directional change represented in the new five-year lease schedule."

That change is in the national interest, he added, because it will make more acreage available, increase domestic oil supply and reduce U.S. dependency on foreign oil.

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Senator WEICKER. Thank you very much.
Mr. Spaulding.

STATEMENT OF ARTHUR O. SPAULDING, VICE PRESIDENT AND GENERAL MANAGER, WESTERN OIL AND GAS ASSOCIATION

Mr. SPAULDING. Thank you, Mr. Chairman.

My name is Arthur O. Spaulding. I am the vice president and general manager of the Western Oil and Gas Association. That association represents the petroleum industry on the west coast and all phases of operations.

We also are very grateful for having the opportunity to be here to present our views. In our opinion, the streamlining aspects of the new proposal are much more significant than any adjustments in the sale schedule itself. This areawide approach to OCS leasing is evidence of a new and welcome understanding of the realities of petroleum exploration and of environmental studies, too.

The environmental impact statement which has been prepared in draft form so far refers to the greater flexibility and more rapid resource inventory which the new system would provide.

Appendix I of that draft notes it should allow greatly improved exploration strategies and accommodate wide diversity of opinion as to geologically prospective areas.

Speaking of streamlining our approach to leasing and development of the OCS, let me quote some statistics which come from the American Association of Petroleum Geologists, illustrating the magnitude of the problems we are trying to overcome.

The total Federal offshore consists of about 1,800,000 square miles. Since 1954 the outset of OCS leasing, only 61,000 square miles or 3.4 percent had been offered for lease and of this area only about 28,000 square miles or 1.5 percent have in fact been leased.

From these relatively small areas more than 5 billion barrels of oil and 44 trillion cubic feet of gas have been found and produced. From these volumes of production it is clear that prospects for the discovery of significant amounts of oil and gas in the unexplored portions of the OCS have to be viewed as outstanding.

If we follow the same leasing patterns of the past 27 years, it would take 1,736 years to complete leasing and examination of the entire U.S. offshore. Even with the 1979 leasing rates as they were accelerated, it would still take 685 years to complete the job. Finally, under the new proposal it will still take more than 137 years to evaluate all of our offshore provinces.

Gentlemen, we obviously do not have the luxury in view of the current and future energy problems not to make a wholesale effort to explore our abundant offshore resources.

We believe the emphasis on areawide systems has great promise. The previous method concentrated interest on the obvious structural traps and of course such structures have held a large part of the oil and gas discovered to date.

The areawide systems, on the other hand, will encourage more detailed geophysical surveys of the entire sedimentary basin combined with a regional approach to geological studies.

The result will be a diversity of exploration strategies with some operators making large bids for the obvious anticlinal structures and others preferring riskier but less expensive prospects, those

being stratigraphic or other obscure and subtle traps said to contain much of the world's undiscovered hydrocarbons.

The regular repetition of whole area sales every 1 to 2 years will allow rapid followup of promising discoveries. For example, note the recordbreaking bids for the southernmost sale 53 tracts based on drilling just a few months earlier on adjacent sale 48 leases off the coast of California.

In addition to this, an operator whose dry holes provided clues to a possible oilfield on adjacent unleased tracts could quickly divert his efforts to the more promising area. For petroleum provinces are rarely if ever evaluated in a single spate of exploratory drilling.

The new system offers a much more rational approach to OCS environmental studies. Though not discussed in the body of the environmental impact statement, these advantages are made clear in appendix I and include first a comprehensive areawide EIS which will serve as the basic document for all further sales in that planning area. It is recognized that most environmental studies are regional in extent rather than site specific.

The wholesale repetition of data in environmental documents for successive sales in the same region, for example, sales 35 and 48 off southern California, has resulted in multivolume reports in which significant new information may be buried. Certainly these encyclopedias of redundancy are difficult for Government and industry scientists to use.

Second, the tiering of supplementary EIS's for subsequent sales in a planning area will highlight all such new data and analysis developed since the previous sale.

Third, the recognition that site-specific data usually can be obtained most effectively after a sale; initially in the geohazard and other surveys required prior to exploratory drilling and later in the intensive studies which must be made before a production platform can be approved.

Many environmental aspects can only be analyzed during this latter phase when a commercial discovery has been made and its location, size, hydrocarbon character, and other aspects are known. These aspects include detailed geohazards, transportation systems, spill trajectories and impacts, air quality, and onshore socioeconomic effects.

Certain of the presale environmental studies and analyses, for example, those pertaining to geohazards and benthotic studies, could be concentrated more effectively if through the call for information procedure sale areas were limited to offshore sedimentary basins. In many instances these comprise only 20 to 50 percent of the planning areas which encompass them. We can be sure that industry will not waste its money on surveys outside the sedimentary basins; there is no reason why Government should do so.

The single advantage of the new system once again is that it will increase the flexibility and effectiveness of OCS exploration and resource assessment. Although it may be argued by some that the increase in impact of the proposed new schedule will be in some way proportionate to the increase in acreage available for leasing, this is not correct.

It is noted in the appendix of the EIS that historically 50 percent of tracts offered do not receive bids. We would predict for that

under areawide offerings this percentage of unbid tracts will rise. The offering of whole areas rather than limited is likely to produce a larger unbid percentage.

For the period covered by the existing 5-year schedule through February 1985, the proposal adds only four new sales for the entire United States. Three of these are in Alaskan waters. The proposed increase in OCS sales is only 16 percent nationwide.

The additional sales including the other three Alaskan sales are later than February 1985 and would have been scheduled without this new proposal and at about the same times.

In estimating the possibility of oilspills and the predicted impact, it is wrong to believe that the worst case model should invariably be applied. Specifically we believe it is wrong to tabulate spill frequency estimates on the basis of historical rates which average the entire period of OCS development. This totally conceals the major gains in oilspills prevention which have resulted from tighter Federal controls and improved industry practices.

The detailed accident chronology shows that since 1975 the number of spills per volume of OCS oil produced has decreased by 59 percent and the amount spilled by 96 percent.

Furthermore, the additional regulations recently imposed by the OCS Lands Act Amendments of 1978 can be expected to further reduce the frequency of spills. During 1980 as an example only two spills of more than 50 barrels occurred within the U.S. Outer Continental Shelf waters, one of which involved 135 barrels of oil.

The impacts of the new proposal should not be confused with the impacts of the existing schedule. For example, under one alternative, no additional sales are proposed offshore California and the three sales already scheduled are accelerated by an average of less than 4 months each. As a consequence we do not believe that the new schedule would quickly increase the number of platforms emplaced off southern California as opposed to the present schedule.

Comments should be made regarding the petroleum industry's capacity to develop its drilling and production technology in order to keep pace with the operating requirements of difficult and hazardous frontier areas.

Our drilling technology is now adequate and safe for exploration in deep water and pack ice areas. In addition research and development of production technology for such areas is going forward. Critical decisions and major investments will not be made until required by a significant oil discovery which is necessarily in the future.

At such time the USGS and other Federal agencies will provide close scrutiny of all new technology through the development and production plan and accompanying environmental report. We cannot expect that all technology would be fully developed in advance of any specific need.

I would like to conclude by saying we strongly endorse the streamlined leasing described in the proposal. We believe it will result in a more rational and efficient assessment of this country's Outer Continental Shelf energy and resources.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Spaulding follows:]

STATEMENT BY

ARTHUR O. SPAULDING

on behalf of

WESTERN OIL AND GAS ASSOCIATION

before the

SUBCOMMITTEE ON CONSERVATION AND SUPPLY

of the

SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES

October 6, 1981
Washington, D.C.

The Western Oil and Gas Association appreciates this opportunity to comment on the Five-Year OCS Oil and Gas Lease Sale Schedule. We do not plan to address specific details or scheduling. Many of our member companies have responded or will respond to these points individually.

In our opinion, the "streamlining" aspects of the new proposal are much more significant than any adjustments in the sale schedule itself. This area-wide approach to OCS leasing is evidence of a new and welcome understanding of the realities of petroleum exploration and of environmental studies, too. The EIS refers to the greater flexibility and more rapid resource inventory which the new system would provide. And, Appendix I to the draft supplement of the FEIS notes that it should allow greatly improved exploration strategies, and accommodate wide diversity of opinion as to geologically prospective areas.

Speaking of streamlining our approach to leasing and development of the OCS, let me quote some statistics[1] that illustrate the magnitude of the problems we're trying to overcome. The total Federal offshore consists of about 1,800,000 square miles. Since

[1] Report on EXPEDITING THE DEVELOPMENT OF PETROLEUM RESOURCES ON THE U.S. FEDERAL OFFSHORE, Submitted to Interior Secretary James G. Watt (American Association of Petroleum Geologists, 1981) pp. 15,24.

1954, the outset of OCS leasing, only 61,000 square miles or 3.4% have been offered for lease, and of this area, only about 28,000 square miles or 1.5% have, in fact, been leased. From these relatively small areas more than 5 billion barrels of oil and 44 trillon cubic feet of gas have been found and produced. From these volumes of production it is clear that prospects for the discovery of significant amounts of oil and gas in the unexplored portions of the OCS have to be viewed as outstanding.

But if we followed the same leasing patterns of the past 27 years, it would take 1,736 years to complete leasing and examination of the entire U.S. offshre. Even with the 1979 leasing rates, as they were accelerated, it would still take 685 years to complete the job. Finally, under Secretary Watt's revised and increased rate of leasing, it would still take more than 137 years to evaluate all of our offshore provinces.

Gentlemen, we obviously don't have the luxury, in view of the current and future energy problems, not to make a wholesale effort to explore our abundant offshore resources.

We believe that the emphasis on area wide systems has great promise. The previous method concentrated interest on the obvious structural traps and, of course, such structures have held a large part of the oil and gas discovered to date. The area-wide systems, on the other hand, will encourage more detailed geophysical surveys of the entire sedimentary basin, combined

with a regional approach to geological studies. The result will be diversity of exploration strategies, with some operators making large bids for the obvious anticlinal structures and others preferring riskier but less expensive prospects: stratigraphic or other "obscure and subtle traps" said to contain much of the world's undiscovered hydrocarbons.

The regular repetition of whole-area sales every one to two years will allow rapid follow-up of promising discoveries; for example, note the record-breaking bids for the southernmost Sale 53 tracts based on drilling just a few months earlier on adjacent Sale 48 leases. And, in addition to this, an operator whose dry holes provided clues to a possible oil field on adjacent, unleased tracts could quickly divert his efforts to the more promising area. For petroleum provinces are rarely, if ever, evaluated in a single spate of exploratory drilling.

At best, evaluation will not take place instantly. Experience tells us that major discoveries may require several cycles of exploration, with our concepts and prospects evolving from the results of prior drilling; as a recent example, 40 wells were drilled offshore Newfoundland over a twelve-year period without a commercial find, but the 41st well discovered the super-giant Hibernia Field. That is an added reason for getting on with the job. The Bureau's new approach to OCS leasing is far superior to the previous "one-shot" system which in frontier areas could have delayed for several decades the discovery of a Hibernia - and the

consequent easing of our energy and foreign-exchange problems.

The new system offers a much more rational approach to OCS environmental studies. Though not discussed in the body of the EIS, these advantages are made clear in Apendix I, and include:

First: A comprehensive area-wide EIS which will serve as the basic document for all further sales in that planning area. It is recognized that "most environmental studies are regional in extent rather than site specific." The wholesale repetition of data in environmental documents for successive sales in the same region - for example, Sales 35 and 48 off Southern California - has resulted in multi-volume reports in which significant new information may be buried. Certainly these encyclopedias of redundancy are difficult for government and industry scientists to use.

Second: The "tiering" of supplementary EISs for subsequent sales in a planning area will highlight all such new data and analysis developed since the previous Sale.

Third: The recognition that site-specific data usually can be obtained most effectively after a sale; initially in the geohazard and other surveys required prior to exploratory drilling; and, later, in the intensive studies which must be made before a production platform can be approved. Many environmental aspects can only be analyzed during this latter phase, when a commercial discovery has been made and its location, size, hydrocarbon

character and other aspects are known; these aspects include detailed geohazards, transportation systems, spill trajectories and impacts, air quality, and onshore socio-economic effects.

Certain of the pre-sale environmental studies and analyses (for example geohazards, benthos) could be concentrated more effectively if, through the Call for Information procedure, sale areas were limited to offshore sedimentary basins. In many instances these comprise only 20 to 50 percent of the planning areas which encompass them. We can be sure that industry will not waste its money on surveys outside the sedimentary basins; there is no reason why government should do so.

All that is to the good. However, we must call attention to a serious error or distortion, exaggerating the potentional impact of the new proposal, that permeates the exploration and development projections of Table II-3 (p.14) of the draft supplement to the FEIS. The relationship between exploratory wells and development platforms, as shown on that table, has no basis in history or reality: for example, it predicts that 40 exploratory wells off Central and Northern California would result in 51 platforms. This incredible feat is picked up on page 32: "Under this schedule up to 51 platforms could result fairly quickly, expanding the demand on the coastal area for support bases." A grossly overstated impact based on unsupportable estimates. And this is not a solitary error but part of a consistent bias. Past offshore activity outside the Gulf of Mexico has resulted in 388 exploratory wells and 38

platforms (a ratio of 10.2 wildcats per platform); Table II-3 predicts that, for the OCS outside the Gulf of Mexico, the new proposal would result in 602 exploratory wells and 442 platforms (or 1.4 wildcats per platform). Let us hope that in the Final Supplement, major revisions will be made not only to Table II-3, but also to all the conclusions which flow from it and which now grossly overstate the possible impacts of the new schedule.

The signal advantage of the new system once again is that it will increase the flexibility and effectiveness of OCS exploration and resource assessment. Although it may be argued by some that the increase in impact of the proposed new schedule will be in some way proportionate to the increase in acreage available for leasing, this is incorrect. It is noted in the Appendix that historically 50 percent of tracts offered do not receive bids. We would predict that under area-wide offerings, this percentage of unbid tracts will rise. The offering of whole areas rather than limited is likely to produce a larger unbid percentage. Moreover, for the period covered by the existing five-year schedule through February 1985, the proposal adds only four new sales for the entire United States. Three of these are in Alaskan waters. The proposed increase in OCS sales is only 16 percent nationwide. The additional sales, including the other three Alaskan sales, are later than February 1985 and would have been scheduled without this new proposal and at about the same times.

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In estimating the possibility of oil spills and the predicted impact, it is wrong to believe that the worst case model should invariably be applied. Specifically, we believe it is wrong to tabulate spill frequency estimates on the basis of historical rates which average the entire period of OCS development. This totally conceals the major gains in oil spills prevention which have resulted from tighter federal controls and improved industry practices. The detailed accident chronology shows that since 1975, the number of spills (per volume of OCS oil produced) has decreased by 59 percent and the amount spilled by 96 percent. Furthermore, the additional regulations recently imposed by the OCS Lands Act Amendments of 1978 can be expected to further reduce the frequency of spills. During 1980, for example, only two spills of more than 50 barrels occurred with U.S. Outer Continental Shelf waters, one of which involved 135 barrels of oil.

The impacts of the new proposal should not be confused with the impacts of the existing schedule. For example, under one alternative, no additional sales are proposed offshore California and the three sales already scheduled are accelerated by an average of less than four months each. As a consequence, we do not believe that the new schedule would quickly increase the number of platforms emplaced off Southern California as opposed to the present schedule.

Comments should be made regarding the petroleum industry's capacity to develop its drilling and production technology in order to keep pace with the operating requirements of difficult

and hazardous frontier areas. Our drilling technology is now adequate and safe for exploration in deep water and pack-ice areas. In addition, research and development of production technology for such areas is going forward. Moreover, critical decisions and major investments will not be made until required by a significant oil discovery which is necessarily in the future. At such time, the USGS and other Federal agencies will provide close scrutiny of all new technology through the Development and Production Plan and accompanying Environmental Report. But we cannot expect that all technology would be fully developed in advance of any specific need.

We wish to point out the beneficial or mitigating aspects of offshore petroleum operations that are very often ignored in controversies associated with proposed offshore operations. Production from the new schedule will replace foreign oil and gas now being imported into the United States with less likelihood of oil spills. Furthermore, the local economic benefits should be stressed. The prospect of a steadier pace of OCS activity would lead to construction of new harbor facilities and after the peak use during platform emplacement and development drilling, these facilities conceivably could have broader use.

A word about our relationships with the fishing industry should be included. Our Association is renewing its efforts

aided by the Bureau of Land Management to establish a mechanism for continuing liaison with commercial fishermen along the coasts of California and Alaska.

Finally, to touch lightly upon other environmental impacts about which there is often high vocal concern, in our opinion, emissions will be local in nature and quickly dissipated by climatic conditions with no increase in air quality degradation onshore. Similarly, we believe the discharge of drill cuttings and associated drilling fluids would only affect waters in the immediate vicinity of operations. It should be noted that there has been no discernible decrease in marine productivity in OCS areas where oil and gas have been produced for many years.

Western Oil and Gas Association strongly endorses the streamlined leasing described in this proposal. We believe it will result in a more rational and efficient assessment of this country's Outer Continental Shelf energy and resources.

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Senator WEICKER. In a letter from the American Petroleum Institute, the statement is made that with some possible exceptions API member companies believe there are alternative methods of achieving the objectives, streamlining proposals that are preferable to offering entire planning areas to individual lease sales.

Would you like to comment on that?

Mr. DIBONA. It really makes a point about the difference between taking geographic areas as opposed to geologic areas.

Senator WEICKER. Yes.

Mr. DIBONA. Our concern was that in the process of the broad planning areas that geological areas not be reduced in size or eliminated. Those are places where the possibility of finding oil and gas is most likely and in fact it is the only place we expect to find oil and gas.

Our concern was to insure that when an area was put up, it contained the most prospective area. The fact that additional territory was put in is not as critical to us. We did not object to having it put in. We wanted to insure that the high quality acreage was in fact included in the area.

As I observed from the earlier testimony, that clearly is the intent of the administration.

Senator WEICKER. I have been told by counsel that the ratio of finds to wells drilled has gone way down in this particular area. Would you like to comment?

Mr. DIBONA. Our principal concern and objection to the previous administration's leasing programs were they put up the poorer acreage, that is the lower quality acreage and not the fine acreage, that these places where you were most likely to find oil and gas were moved. That is the reason for our sensitivity on this point. It is the reason for the results that have been achieved. As a consequence the amount of oil being produced offshore has declined.

The possibility to get the prime acreage put up, the areas most likely to contain oil and gas is critically important to us and one of the great benefits of this program will be not necessarily that there will be vast amounts more acreage leased but the better acres will be available as a consequence of opening up these very large areas.

Mr. SPAULDING. I think some of our exploration in the Pacific Ocean has been disappointing at the outset but I think it should be remembered that is not necessarily going to be the final condemnation of all the prospects for finding oil and gas.

As I have indicated in my written statement there have been episodes of exploration which have resulted ultimately in some highly successful discoveries. Perhaps it is too soon to give up on some of the exploration that has already taken place.

Senator WEICKER. It does raise the question as to whether this accelerated leasing policy is worth the risk that exists toward other uses of the oceans. It is great that we are concentrating on the energy situation in the sense of trying to increase supply but on the other hand we have a problem with fisheries and the environment that is not necessarily compatible with your activities or interest.

Mr. SPAULDING. I think our experience on the west coast has been that our problems with the fishermen primarily are at the

outset of exploration, during the period of geophysical activity rather than during the period of production after discovery.

It has been my experience and it is my understanding at the present time that our relationships with the fishing community on the west coast are in pretty good shape.

Mr. DIBONA. The experience of the petroleum industry working with fisheries has been pretty good throughout the world. That certainly is the case in the North Sea which has many attributes that are similar to the areas off the U.S. North Atlantic coast.

We have not had great problems in the United States offshore with maintenance and pretty high standards. The standards that have been set as a consequence of very elaborate review of the OCS Lands Act has strengthened the environmental safeguards.

While we recognize there inevitably will be some areas where there will be conflicts of a temporary nature in development of the offshore, we do not think they are major or significant. The importance of looking to see whether or not we have oil and gas and then producing, it if we do, is critically important.

If we do not do this, we can be assured of declining U.S. production of oil and gas. There is no way in which we can maintain anything like U.S. current production levels of oil and gas unless we develop offshore in the United States.

Senator WEICKER. I would not argue that point. On the other hand, do you feel there should be an ongoing monitoring effort during this offshore drilling process regardless of where it is located by the Federal Government?

Mr. DIBONA. Yes. We did not object to the monitoring of the activities. Our concern was with other features of that particular piece of legislation. We think the Federal Government has plenty of authority. DOI can require that. That is the logical way of doing it. That particular piece of legislation raised a particular concern to us because it would have required the proving of the negative, that is to not have conducted a series of examinations and not found any evidence of a problem would not have satisfied the test as I understand it. You would have had to prove that no possible harm could have happened under any conditions. That is just impossible to do.

Senator WEICKER. The reason it was felt by myself and others that legislation was needed was we had gone through the experience of Secretary Andrus just taking the rule book and throwing it away and forgetting the safeguards that had been put into place, doing away with them administratively.

With Georges Bank producing 17 percent of this Nation's fish, one Campeche oil spill would be the end of the ball game.

I am just not prepared to say I do not want the strictest possible safeguards in terms of the requirements before you go in and then ongoing monitoring while you are doing your work.

Mr. DIBONA. We are not in disagreement.

Senator WEICKER. Do you feel this is best accomplished by the Federal Government rather than letting the individual companies be responsible for that activity?

Mr. DIBONA. As far as monitoring the activities, it is the proper role of the Department of the Interior. They have the authority to do it. They should do it. We would want them to do it.

We recognize that if these activities are not carried out carefully that ultimately we will not be permitted to do them and we and the public will suffer. We are very interested in doing them right. We have spent at the API tremendous amounts of effort and money over the last 10 years studying very elaborately the effects of oil and sea water. We have a very large program called the fate and effects of oil in which we have studied everything from physical movement of the oil in the water column and its breakdown to the effects on individual mollusks and other sea creatures.

We have done it in a number of areas throughout the offshore United States.

We do not think there is a major problem. In the particular case of Georges Bank, we do not believe there are structures of the size that you would find at Campeche. The possibility of a spill of that size is remote.

The very careful and elaborate set of requirements that grew out of the 1978 review of the OCS Lands Act are very different from the kinds of conditions under which the Mexicans were operating in Campeche.

Senator WEICKER. The oil industry is perfectly satisfied with the data given to the oil industry by the Mexicans. From day one the Mexicans would permit no onsite inspections by this Government or by an agency of this Government and neither would they permit on site inspection by personnel of the American oil industry.

They issued one misleading statement after another as to the status. I found it very interesting that men that were of a scientific bent could be satisfied with knowledge gained in that fashion and then arrive at a conclusion as they did.

If I was a scientist associated with any portion of our petroleum industry, I would like to derive my conclusions based on my own knowledge and not information given to me by a government who had already been engaged in covering up the facts of the situation.

Mr. DIBONA. The API has not been involved in any study of that particular incidence.

Senator WEICKER. I gather members of the API have because I appeared at a symposium at the University of Delaware. I think I engaged in a dialog with some representatives of Shell Oil Co.

Mr. DIBONA. I meant the API itself.

Senator WEICKER. Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman.

I also am very concerned about the effects offshore leasing may or may not have on our fishery stocks. I intend to submit for the record from the representative of the Department of the Interior a question on the full enlightenment on the current plans the Department has for the Bristol Bay lease sale which is still under some discussion.

More pertinent, we in Alaska are very concerned about this proposed development in view of the fact that three of the four sales will be occurring in offshore Alaska and with our harsh coastal environment, the questions that we have are what assurances are there that the industry has the technical capability to meet those challenges of heavy ice flows, violent seas and to our knowledge there has never been any major oil spills in those climatic conditions, semi-Arctic or Arctic, does in fact the industry

have the capability to deal with a major spill should it occur in the exploration stages associated with these proposed lease sales?

I would submit the question to either of the gentlemen.

Mr. SPAULDING. Senator, the answer to your question is the industry meets these needs as they arise. I think you can develop a feeling and understanding of a capacity and capability of the industry by looking at the areas where they have operated so successfully. I am thinking in particular of the North Sea where the climatic conditions are about as extreme as you can find.

The success of the operations in the North Sea is well documented. In the Cook Inlet of Alaska, at the outset they were confronted by the climatic conditions as well as tidal conditions of an extraordinary type. Again I think the industry measured up to those requirements highly successfully. They operated without incident.

Senator MURKOWSKI. You say "as they arise." That is our concern.

Mr. SPAULDING. As opportunities are presented.

Senator MURKOWSKI. Our concern is as the difficulty may occur, we feel uneasy about the result of developing a technique after an accident occurs.

Our questions are associated with the preparedness of the industry to bring its technique that it has gathered not only in the North Sea but Cook Inlet and other places as we move out into more severe areas from the standpoint of the ability to be responsive.

If you contemplate the distance of the Navarin Basin as an example, from any point of supply, what is it, 800 miles from St. Matthew's Island and St. Matthew's Island is currently a bird sanctuary.

If there is an accident out there near the international dateline, it is much more difficult to be responsive than if there were a spill in Cook Inlet where you have a relatively secure source of supply on land nearby.

I am very interested in knowing if there is a good deal of preparedness going on within the industry to meet the challenges associated with what is really new technology.

Mr. DIBONA. What he really means is you do not build the equipment until you have the opportunity to use it. Before the actual drilling and oil production would be carried out, there would be in place rather elaborate equipment to take care of those kinds of circumstances. We design the equipment to meet the test of the area in question. That is largely what happened in the North Sea.

The equipment we used in the North Sea is of the size and scale that has never been attempted before in the United States. That does not mean it was not carefully designed and structured for the circumstances there nor has there been a major failure of a piece of equipment put into the North Sea. These structures were built not for average conditions and not for unusual conditions but for conditions that would occur at most once in a century.

The structures in the North Sea are built for wave conditions in excess of 100 feet. These things are huge structures that would withstand tremendous forces.

I do not know if you have ever had an opportunity to visit any of the North Sea structures or not.

Senator MURKOWSKI. Yes. I agree that the industry has an outstanding record. We are concerned with the idea that perhaps we are doing some more pioneering and I think you would be the first to agree. We want the reassurance that the industry is cognizant of the need to develop the technology as we go into the new challenging areas.

I have another question. As a consequence of the impact these proposed lease sales would have to the residents of our small communities in Alaska, those small areas that could very well be affected by the impact of the OCS either from the standpoint of being a shore based supply center or men and materials.

We have had the problems of the impact on those small communities and the lifestyle. We are very concerned with the industry's attitude toward being available to meet with these groups and in many cases small villages to coordinate that lifestyle will not be interrupted to the point that it creates some very severe problems or impacts or situations where we have a temporary boom and then a bust. Those people are very concerned about local hiring and being able to provide someof the services, that it is not brought in from other places.

We would like to have any comments you would care to make with regard to how you feel you can interact with some of the smaller areas that would be affected. I can refer to the situation with regard to Yahatac. We had the Gulf of Alaska sales and that resolved itself but these others may not.

Mr. SPAULDING. Mr. Murkowski, the oil and gas association in Alaska is a division of ours. That association has had a long standing program through its long range planning and research committee to conduct exactly the sort of orientation programs you are interested in.

They are spending hundreds of thousands of dollars yearly in an effort to create the bonds of communication and understanding that I think is essential for the populations in the communities you are talking about.

That is a matter of extreme concern to us. We are doing what we think is the best way of overcoming that situation.

Senator MURKOWSKI. The industry is assuring us that you are committed to work with those local communities that are affected?

Mr. SPAULDING. Yes, sir.

Senator MURKOWSKI. I have one last question and it does concern the Navarin Basin which in my understanding sits astraddle the international dateline, very close to the Russian boundary between Siberia and Alaska.

The technical capability of the state of the art of supply to a helicopter is limited so that this sale would put the supply area beyond the range of the conventional helicopter, some 800 miles.

We are looking at the possibility of using St. Michael Island as a gathering point for transporting men and material and so forth and this is an offshore and distant almost virgin area. It is a bird sanctuary.

My concern is this would be an extremely expensive area to develop, would it not? If you did strike oil out there, I assume moving it by undersea pipeline, it would be all virtually new. Would you explain what techniques are in the offering?

Mr. DiBona. We are not technical experts in that particular area.

Mr. Spaulding. Neither are we.

Mr. DiBona. I think it would be better if I could supply an answer for the record as to precisely the methods they would develop. There is no question it would be extremely expensive.

Senator Murkowski. It seems to me if we are talking about developing such an isolated area, with such great distance, but the infrastructure involved is extremely complex and we have been deliberating for several years on the pros and cons of bringing Prudhoe Bay gas to the market by one scheme or another where we have an infrastructure established and we cannot do that or have not been able to successfully for a number of reasons.

Does it logically follow we can go out even at a higher cost and with a much more elaborate scheme? I would ask you submit an answer to that also.

Mr. DiBona. It is not necessary to build a pipeline from the platform in order to deliver the oil. That is not the only way it is done.

There are a number of platforms in the North Sea where that is not the case. The concrete platforms in the Norwegian sector have been put in by Mobil Corp. and they actually have a very large stress concrete structure of huge size. Those platforms have the capacity to store 2 million barrels of oil in some tanks on the sea floor which constitute the actual base of the platform.

The oil then is simply processed within the platform. Tankers come up every few days and tie up to that boom and the oil is pumped from the storage capacity in the platform itself on the sea bottom.

Senator Murkowski. This is out in the North Sea?

Mr. DiBona. This is in the North Sea just east of the trench in about 400 feet of water, in sea conditions that are tremendously strong. I think on the average the sea conditions are more severe than they are in the Bering Sea.

We are talking about known technology. If your question is do we have a helicopter that can fly over 800 miles and carry a decent payload, I do not know whether we have such a thing.

Senator Weicker. Thank you very much, gentlemen.

[Subsequent to the hearing Mr. Spaulding submitted the following:]

ALASKA OIL AND GAS ASSOCIATION'S RESPONSE TO QUESTIONS ASKED BY SENATOR FRANK MURKOWSKI AT OCTOBER 6, 1981 HEARING OF THE SENATE ENERGY COMMITTEE'S SUBCOMMITTEE ON ENERGY CONSERVATION AND SUPPLY REGARDING FIVE-YEAR OCS LEASING PLAN

QUESTION:

Alaska and its harsh coastal environment will present energy exploration with some unique circumstances. At what stage is industry technology ready to deal with such circumstances?

RESPONSE:

The presence of sea ice, severe wave climate, and remoteness all contribute to the difficulty and expense of developing oil and gas resources of Alaska's OCS. However, based on experience in similar harsh environments and development of new technology, the petroleum industry has the capability to operate in a safe and efficient manner in all arctic areas presently planned for leasing. Developing this capability requires research to describe the environment and to determine ice and wave forces, as well as engineering development of exploration, production and transportation systems. This response highlights arctic research and development, while more detailed information can be found in the supporting exhibits submitted with this response.

Industry arctic research and development is conducted both on an individual basis by single companies and jointly by several companies on a cost-sharing basis. This joint industry research provides a method to conduct more numerous, more comprehensive, and more costly projects which make data available to many organizations interested in arctic operations. Between 1970 and April 1981, the joint industry arctic research and engineering for the Bering, Chukchi and Alaska Beaufort Seas totaled nearly $36 million. The total level of effort of U.S. industry arctic research, including proprietary research and engineering conducted by individual companies, has been estimated to be in excess of $20 million per year.

In addition to arctic research and development performed in Alaska, U.S. and Canadian companies have been conducting extensive research and operations in the Canadian Beaufort Sea since 1972. Much of this work is not site-specific and thus contributes directly to developing capability in Alaska. The nine years of Canadian offshore arctic experience is particularly valuable in planning operations, and the mutual needs many times result in joint research programs.

A significant portion of the industry effort is spent on collection and interpretation of environmental data. Approximately $21 million of the total $36 million joint industry arctic research funds have been spent on studies to describe sea ice properties and to acquire ice, oceanography, and geotechnical/earthquake data on a regional basis. Sea ice studies include analyses of satellite imagery and other historical ice observations, overflights with aerial photography, laser, and radar, and on-the-ice studies to investigate ice movement and the in-situ properties of ice features. To describe the oceanographic environment, industry has conducted historical studies of severe storms that occurred during the past thirty years and programs to measure waves, winds, and

currents in the Bering and Beaufort Seas. As an example, an $8 million, two-year oceanographic measurement program is underway in the Bering Sea. Data from several soil boring and shallow seismic programs are available to describe sea bottom conditions on a regional scale, and earthquake monitoring programs have been conducted around Alaska. These studies provide regional descriptions suitable for evaluation of systems concepts. Individual companies then collect site-specific data following acquisition of a lease.

In addition to the environmental studies which concentrate on regional conditions, industry has undertaken major laboratory and field programs to determine the strength of sea ice and the forces which it can exert on structures. For example, two projects, costing about $3.2 million, were conducted to investigate large scale ice strengths as a function of parameters such as temperature, salinity, crystalline structure, and ice movement rate. The force exerted by ice on a structure also depends on the manner in which the ice fails. This failure mode depends on the ice properties, type of ice feature, and structural configuration. To evaluate these forces, several analytical studies and experiments with scale model structures have been conducted.

All of these studies to describe the environment, sea ice properties, and ice forces on structures are used to develop structural design criteria. The design criteria are than used to evaluate structural concepts for each geologic basin. Feasible systems for exploration and production have been identified for each area.

QUESTION (AOGA does not have verbatim transcript of question): What is industry's capability to handle oil spills in extreme climatic conditions of frontier Alaska OCS areas?

RESPONSE:

During the past decade the petroleum industry has witnessed a most significant change--a change which is far more important than the usual efforts to find new resources or to develop new technologies. This change, which stems from an ever-increasing "awareness of the environment," has involved a new attitude among the entire community of people engaged in finding, producing and distributing petroleum.

Nowhere is this new attitude more engrained in the people that make up that community than in Alaska. Nowhere could any environment be more deserving of that attitude to protect it, to develop its resources wisely, and to respect its use by future generations.

The petroleum companies in Alaska, and their many support-service industries, have already demonstrated their capabilities to develop the State's resources safely and efficiently. The new levels of environmental awareness throughout the industry only serve to refine the desire to prevent pollution, such as oil spills, and to develop the most advanced countermeasures should an accident occur.

Many tens of millions of dollars have been spent by the petroleum industry during recent years in creating unique organizations with primary objectives involving oil spill prevention and control. Such organizations have included the oil spill response segments of the Trans-Alaska Pipeline System (TAPS), the Cook Inlet Response Organization (CIRO), the Gulf of Alaska Cleanup Organization (GOACO), and the Alaskan Beaufort Sea Oilspill Response Body (ABSORB). These cooperative organizations, developed and funded by the oil companies, continue to spend several million dollars annually in purchasing and staging critical spill response equipment; in conducting research to insure that the best techniques and equipment packages are developed; and in training personnel to use that technology effectively under extreme weather conditions. Currently there is well over $12 million worth of oil spill cleanup equipment maintained by the three cooperative response organizations and by Alyeska Pipeline Service Company.

As a case in point, ABSORB alone will have accumulated approximately $6 million worth of spill response equipment by mid-1982 and conducted nearly $2 million worth of research in developing new technology. During 1981 ABSORB will have completed more than 20 oil spill training schools and field exercises. With a staff of fully qualified oil spill specialists available around the clock in ABSORB's Prudhoe Bay facilities, this organization is representative of the kind of commitment the industry is making to back up the existing personnel and equipment already established for spill response within each individual oil company.

In the area of oil spill contingency planning, the best countermeasure is, indeed, prevention. And, the prevention of oil spills could not be established more firmly in the minds of petroleum workers than by the frequent planning sessions, workshops, training schools and field exercises sponsored by the oil companies and their respective spill cooperative organizations.

These training activities, the rising costs for petroleum products, the enormous expenses for spill cleanup in remote areas, and the ever-improving hardware for spill prevention during exploration and production phases all contribute to the "attitude" that petroleum activities can, and will, continue to be conducted safely throughout Alaska.

The petroleum industry in Alaska, as in any part of the world, must plan, however, for the highly unlikely catastrophic event that can result in the release of large volumes of oil to the environment. While minor spills from day-to-day operations can be reduced and controlled through conscientious training, it is the potential large spill that must be realistically addressed while developing a comprehensive oil spill contingency plan. Such oil spill scenarios, involving typical "worst case" spills, have been identified and studied by experts within the oil industry, working closely with consultants and government representatives from federal and state agencies.

These contingency planning functions also have been coordinated with government and industry groups in the Canadian Beaufort Sea region and with several U.S. military organizations. The industry has received excellent support from these groups in assuring that all equipment and personnel would be made available for logistics support and cleanup activities as necessary.

The development of meaningful oil spill response plans has, from the start, involved a careful assessment of the environmental conditions that would preclude any reliance upon conventional response techniques. During periods of broken ice cover and/or dynamic ice sheet movements, for example, techniques and equipment have been identified that will not result in unnecessary risk to human life, and which still will enable an effective measure of control during that time frame. Such techniques include the use of massive gravel barriers in nearshore shallow waters, and air deployable ice-penetration and oil-ignition devices. Numerous field tests in Alaska and Canada have demonstrated the reliability of using various burning and incinerating techniques on both fresh and weathered crude oils under extreme ice and snow conditions.

During solid ice conditions, the arctic and subarctic regions of Alaska present highly favorable conditions for dealing with oil spills. Aside from the obvious difficulties of moving and supporting men and equipment under adverse weather conditions, solid ice and snow cover offer enormous natural containment barriers to the spread of oil. Surface roughness and snow as well as underwater irregularities all contribute to typical oil-holding capabilities of several million barrels of oil in a single square mile. Even the largest of extreme blowout scenarios (for example, in the Beaufort Sea) would be limited to a fraction of a square mile, and be recoverable using conventional earth moving equipment and/or burning techniques.

Analysis and interviews with blowout control specialists have revealed that a major portion (more than 95%) of the oil and gas from a blowout in the arctic could be eliminated rapidly in place by deliberate (or accidental) ignition of the spilling well. In the unlikely event that a blowout occurred, and in the additionally unlikely event that it could not be controlled by surface control techniques, an ignition of the spill source would reduce the region of involvement on the ice/snow to an even smaller region than that described above. Ample time would be available to plan appropriate removal or burning activities, since the oil and burn residues would be rendered immobile by the snow, ice and low temperatures.

The industry has sponsored a number of field tests in the arctic during which large volumes of oil were deliberately released (under controlled test conditions) to test mechanical oil recovery and burning techniques. These tests, witnessed by federal and state representatives, proved to be highly successful.

Field exercises and spill scenarios also have been developed to cover the kinds of responses required for open water situations in the Beaufort Sea as well as other regions (subarctic) in Alaska. Millions of dollars and years of engineering and planning sessions have been devoted to the design and construction of special oil spill response vessels. In some cases large dedicated skimming vessels, such as the 65-foot ARCAT for the Beaufort Sea, have been planned, while in other cases the industry has developed vessels, camps, and other response packages that can be flown or trucked anywhere in the state. An example is COACO's SOCK open sea skimmer which can be transported by air, deployed aboard a vessel of opportunity with less than eight hours of retrofitting, and has been tested by the U. S. Navy under EPA supervision and found to be capable of skimming oil in 6 to 8-foot seas without endangering personnel.

As new lease sales are considered, and related oil spill cooperative organizations are developed, the oil industry will continue to place a high priority on its spill prevention and control responsibilities. Contingency planning and training activities will continue to be implemented within a realistic framework of people and machinery limitations and environmental constraints. Response priorities will continue to be coordinated with appropriate federal, state and local agencies, environmental sensitivities will be identified and considered within these priorities, and every effort will be made to develop the human and hardware capabilities to protect those resources.

QUESTION (AOGA does not have verbatim transcript of question): What has or is industry doing to inform potentially affected communities about OCS operations and how they may impact coastal communities?

RESPONSE:

The Alaska Oil and Gas Association and individual oil companies have become increasingly involved in public information programs over the last several years. The incentive for this involvement has been for the most part, the leasing for oil exploration of lands in "frontier" areas of Alaska. The oil industry activities which follow the leasing have some potential of effecting changes in the areas, and of the life style of the residents of the area communities. We have found it beneficial to these local residents to provide technical information about the activities which are likely to take place so they can decide for themselves how to cope with the changes, whatever they may be.

The Association has since initiated and participated in public information programs in communities adjacent to the Gulf of Alaska, Cook Inlet, the Beaufort Sea, and most recently, the Bering Sea.

The programs have included several functions in providing the public information. Newsletters have been prepared and distributed, and video taped programs have been made available. However, the major effort has been to hold public meetings in the communities with member companies providing knowledgeable technical personnel to explain the equipment and processes which are likely to be utilized in the area. A series of these meetings is often followed up by inviting selected residents of the area to visit on-going operations, either in Cook Inlet or at Prudhoe Bay. The emphasis at these meetings is on responding specifically to the local residents' concerns and questions.

Another aspect of this effort has been the operation of a "Teachers Workshop" in the larger communities. With this program, a week-long seminar is carried out with oil industry experts providing the lecture material. The Teachers Workshop has been accredited so that participating teachers earn credit toward an advanced degree upon satisfactory completion.

We believe the programs have been of benefit to Alaska residents, to the participating companies, and to the industry at-large.

EXHIBITS INCLUDED:

A. List of Arctic Technology References

B. Compilation and Description of Industry Research Projects in Alaska Frontier OCS Areas

C. Arctic Technology Bibliography

D. Arctic Drilling and Production Systems, by H. O. Jahns

E. AOGA Comment offered to hearing on Five-Year OCS Oil and Gas Leasing Schedule before the Subcommittee on Panama Canal/OCS of the House Merchant Marine and Fisheries Committee, October 28, 1981

Compiled by the Alaska Oil and Gas Association, Anchorage, Alaska. Forwarded to Senator Frank Murkowski via David Freer, WOGA/AOGA Washington, D. C. Office, October 26, 1981

Attachment to Alaska Oil and Gas Association Comments Offered to Hearing on Five-Year OCS Oil and Gas Leasing Schedule before the Subcommittee on Panama Canal/OCS of the House Merchant Marine and Fisheries Committee October 28, 1981

INDUSTRY CAPABILITY TO OPERATE

IN FRONTIER ALASKA OCS AREAS

AOGA, OCTOBER, 1981

Introduction

The U. S. petroleum industry currently has the capability to operate in a safe and efficient manner in all arctic basins on the proposed 5-year leasing schedule, so that these valuable energy resources can be developed. These comments will highlight the technical capability and technology available for exploration, production and transportation of Arctic oil and gas.

The petroleum industry has accumulated extensive experience from operating in similar harsh environments that will be applicable to the Arctic OCS. Exploration and production activities have been successfully conducted for a number of years in the northern North Sea. Eleven exploratory wells in the northern Gulf of Alaska and ten exploratory wells in the Lower Cook Inlet have been drilled successfully. Ice resistant structures installed in Alaska's Cook Inlet beginning in 1964 are being used as year-round production platforms. North of the Arctic Circle, exploration has been conducted since 1901, with extensive exploration and production operations following the Prudhoe Bay discovery in 1968. Exploration activities in the Canadian Beaufort Sea, underway since 1972, provide a substantial base from which to plan operations in the U.S. arctic OCS.

In addition to this experience, industry has conducted extensive research and engineering studies to evaluate the arctic environment and to develop feasible systems for all phases of development. Industry arctic research and development is conducted both on an individual basis by single companies and jointly by several companies on a cost-sharing basis. This joint industry research provides a method to conduct more numerous, more comprehensive, and more costly projects which make data available to many organizations interested in arctic operations. Between 1970 and April, 1981, the joint industry arctic research and engineering for the Bering, Chukchi, and Alaska Beaufort Seas totaled nearly $36 million. The total level of effort of U.S. industry arctic research, including proprietary research and engineering conducted by individual companies, has been estimated to be in excess of $20 million per year.

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In addition to arctic research and development performed in Alaska, U.S. and Canadian companies have been conducting extensive research and operations in the Canadian Beaufort Sea since 1972. Much of this work is not site-specific and thus contributes directly to developing capability in Alaska. The nine years of Canadian offshore arctic experience is particularly valuable in planning operations, and the mutual needs many times result in joint research programs.

A significant portion of the industry effort is spent on collection and interpretation of environmental data. Approximately $21 million of the total $36 million joint industry arctic research funds have been spent on studies to describe sea ice properties and to acquire ice, oceanography, and geotechnical/earthquake data on a regional basis. Sea ice studies include analyses of satellite imagery and other historical ice observations, overflights with aerial photography, laser, and radar, and on-the-ice studies to investigate ice movement and the in-situ properties of ice features. To describe the oceanographic environment, industry has conducted historical studies of severe storms that occurred during the past thirty years and programs to measure waves, winds, and currents in the Bering and Beaufort Seas. As an example, an $8 million, two-year oceanographic measurement program is underway in the Bering Sea. Data from several soil boring and shallow seismic programs are available to describe sea bottom conditions on a regional scale, and earthquake monitoring programs have been conducted around Alaska. These studies provide regional descriptions suitable for evaluation of systems concepts. Individual companies then collect site-specific data following acquisition of a lease.

In addition to the environmental studies which concentrate on regional conditions, industry has undertaken major laboratory and field programs to determine the strength of sea ice and the forces which it can exert on structures. For example, two projects, costing about $3.2 million, were conducted to investigate large scale ice strengths as a function of parameters such as temperature, salinity, crystalline structure, and ice movement rate. The force exerted by ice on a structure also depends on the manner in which the ice fails. This failure mode depends on the ice properties, type of ice feature, and structural configuration. To evaluate these forces, several analytical studies and experiments with scale model structures have been conducted.

All of these studies to describe the environment, sea ice properties, and ice forces on structures are used to develop structural design criteria. The design criteria are then used to evaluate structural concepts for each geologic basin. Feasible systems for exploration and production have been identified for each area.

Exploration Systems

In the Bering Sea, five to twelve months per year of open water typically are available. Conventional equipment will be used during the summer months for exploratory drilling. In the St. George and Navarin Basins, where water depths are greater than 300 feet, floating drilling vessels, such as semisubmersibles and drillships, can be used. A continental offshore stratigraphic test (COST) well was drilled from a semisubmersible in 1976 in the St. George Basin. This technology has been used extensively in the North Sea and Gulf of Alaska which have more severe wave climates than the Bering Sea. In shallower water depths, as found in the Norton and North Aleutian Basins, bottom-founded rigs can be used. For example, a jack-up rig was used to drill a COST well in Norton Sound in 1980.

Conventional equipment is still applicable in the Hope and Southern Chukchi Basins, although the shorter open-water season of only two to five months is an incentive to extend the drilling season using ice resistant systems. A number of ice-strengthened drillships currently are in use around the world, the most notable being the Canmar drillships used by Dome Petroleum in the Canadian Beaufort Sea since 1976. A total of 12 wells have been drilled by Dome using this technique. Ice-strengthened drillships may also be used in the Bering Sea to extend the drilling season.

In shallow waters of the Chukchi and Beaufort Seas, man-made gravel islands will be used for exploration due to the extremely short (less than two months) open-water season. This technique was developed in the Canadian Beaufort Sea, where 19 islands have been completed to date. Islands have been constructed both in the summer by dredging and in the winter by trucking gravel over the ice. For instance, the man-made island Issungnak was constructed in 63 feet of water in Mackenzie Bay during three consecutive summers of dredging. Two exploratory wells have been drilled from this island. The current water depth record is held by Tarsuit, a caisson-retained island in approximately 75 to 80 feet of water. Seven exploration gravel islands have also been constructed in the Alaska Beaufort Sea, the deepest of which is in 18 to 20 feet of water. At least one man-made island in approximately 40 feet of water is planned.

In deep water, construction of gravel islands becomes more difficult and costly because of the large volumes of gravel required. Not only are the islands more expensive, but construction is difficult because of shorter ice-free seasons for dredging and a rougher ice surface which makes winter trucking over the ice increasingly difficult. At water depths greater than about 60 feet, alternative structures, such as a mobile conical gravity structure, becomes more attractive. Feasibility studies of both concrete and steel conical structures have been conducted. A conical structure has been considered because it is designed to fail the ice in bending rather than crushing, which results in a lower ice force on the structure. Based on feasibility and preliminary design studies, drilling capability in water depths of 100 to 200 feet can be attained in the next 7 to 10 years. Because of the long development time, the large expected capital cost (on the order of $250 million) and limited applicability, a firm five-year lease schedule should be established if this technology is to be implemented in a timely manner.

Production Systems

Production systems must remain on location year-round and be able to withstand environmental conditions which may be encountered over the life of the structure, as long as 20 to 30 years. The studies described previously are used as input for feasibility and preliminary design studies to screen production systems on a regional basis. Of necessity, the detailed final design will be developed only following a discovery, since such a design requires site-specific geotechnical and operational data. Several feasible platforms have been identified for operations in each of the Alaska OCS basins.

Pile-supported steel structures have been used in the ice environment of Cook Inlet since the 1960's. Fourteen platforms were built there between 1964 and 1968. Similar structures may be applicable to Bering Sea areas of relatively shallow water, such as the Norton or North Aleutian Basins. Man-made gravel islands or gravity structures may also be used.

In western Bering Sea basins, the Navarin and St. George, the deeper water and remoteness will likely favor gravity structures which can be installed with a minimum of on-site construction. Gravity structures were first used in the North Sea for similar reasons. These structures are capable of supporting large deck loads and resisting large lateral forces, whether due to waves or sea ice. It should be noted that maximum wave and ice conditions do not occur simultaneously. The presence of sea ice cover attenuates storm waves, while the wave action along the pack edge breaks up larger ice floes. Several companies have performed engineering studies to evaluate modified North Sea-type configurations or new designs of gravity structures for the Bering Sea.

In the Chukchi and Beaufort Seas, gravel islands are again the most probable production platform concept for shallow water. By extending exploratory island design practice, larger islands can be constructed to support production operations over an extended period.

The economic water depth limit for production gravel islands is uncertain, but likely to be in the 60 to 100 foot water depth range in the Alaska Beaufort Sea. Beyond this limit, conical gravity structures or large caisson islands are anticiapted. The conical gravity structures would be similar to, but larger than, the mobile conical structures described previously for exploration. Furthermore, a production structure would be designed for one particular site rather than designed as a mobile structure. Large caisson islands are another alternative. These islands would use a concrete or steel wall filled with pumped sand or gravel.

Transportation Systems

Transportation of hydrocarbons during the production phase will be by pipeline or tanker. Sophisticated pipelaying techniques, developed for use in the North Sea, are applicable in the Bering Sea. Pipelaying from the ice during winter months has been used in the Canadian Archipelago and has been evaluated for use in the Alaska Beaufort Sea in three joint industry studies.

Marine transportation with icebreaking or ice-reinforced tankers has also been evaluated. The Manhattan voyage through the Northwest Passage proved the technical feasibility of arctic tanker operations. Icebreaking tankers are used on a regular, year-round basis by Finland in the Gulf of Bothnia to supply refinery products to coastal cities in northern Finland. Eighteen of these ships, designed for operation in 3-ft. thick level ice and 33-ft. thick pressure ridges, were delivered in the late 1970's. Design of Bering Sea tankers would build on this technology to provide larger, more powerful vessels for reliable year-round operations. Joint industry research projects are currently underway to perform a preliminary design of such a tanker for the Bering Sea and to evaluate structural configurations for a loading terminal.

In summary, feasible exploration, production, and transportation systems have been identified for all of the Alaska OCS sedimentary basins in the current five-year plan. Industry has spent and is continuing to spend significant manpower and money in collecting regional environmental and ice properties data. These data are combined with methods to calculate forces from sea ice features, waves, and earthquakes to evaluate the economic feasibility of various exploration, production, and transportation systems. These systems will be

developed in more detail through final design following acquisition of leases and discoveries. Industry is confident that sufficient environmental data and engineering methods exist to begin operations in the proposed lease sale area. It is of course understood that additional data, new analytical methods, and experience from on-going operations will lead to improved, optimized designs in succeeding phases of arctic development.

EXHIBIT: "Arctic Drilling and Production Systems", by H. O. Jahns

Alaska Oil and Gas Association

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October 20, 1981

The Honorable Carroll Hubbard, Jr.
Chairman
Panama Canal/OCS Subcommittee of the
House Merchant Marine and Fisheries Committee
H2-542 House Office Building Annex II
Washington, D. C. 20515

Re: Oversight Hearing on the Proposed Five-Year Outer Continental Shelf Oil and Gas Lease Sale Schedule

Dear Congressman Hubbard:

The Alaska Oil and Gas Association (AOGA) is a trade association whose thirty-six (36) member companies are engaged in all facets of oil and gas operations in Alaska -- including the exploration and development of the Alaska Outer Continental Shelf (OCS). Our membership includes the largest and some of the smallest petroleum firms operating in Alaska. AOGA is the Alaska division of the Western Oil and Gas Association.

We appreciate this opportunity to express our strong support for the Proposed Five-Year OCS Oil and Gas Lease Sale Schedule which is the subject of your committee's oversight hearing on October 28, 1981. We endorse the testimony of the American Petroleum Institute and the Western Oil and Gas Association. We think you will find that the entire industry is dedicated to developing more reserves, and the OCS is one of the best areas left in which to look. AOGA is particularly concerned about the Alaska OCS.

It is widely acknowledged that the Alaska OCS holds great promise for significant oil and gas discoveries that could substantially reduce America's dependence upon foreign energy sources. The potential recoverable, undiscovered oil and gas resources in the U.S. arctic OCS is estimated at 30 to 50 billion barrels of oil equivalent. This constitutes on the order of 30 percent of the estimated total U.S. undiscovered reserves.

The single most significant and positive benefit of the proposed OCS program is the fact that the Secretary of the Interior's recommended leasing procedures will lead to an earlier evaluation of frontier OCS areas such as the Alaska OCS. The area-wide approach to environmental studies and leasing is particularly appropriate for the Alaska OCS with its large and unexplored basins. The proposed program will provide the nation with an earlier evaluation of our petroleum resources, which will allow for effective planning for energy alternatives in the coming years.

We strongly endorse the concept of "steamlining" the pre-sale planning process as recommended by the Secretary of the Interior in the proposed revisions to the OCS leasing program. If implemented, the new procedures will greatly simplify and shorten the pre-sale planning process without diminishing the environmental protection necessary for operations in sensitive OCS areas.

Since it will take from 8 to 12 years or more to bring new Alaska OCS frontier discoveries to the point of production, it is important that the present pre-sale planning process for Alaska's frontier areas be sho tened from the present schedule which requires 42 months from beginning to end. In our judgment the present pre-sale planning process leads to a great deal of uncertainty and is incompatible with the requirements for the exploration of the Alaska OCS. The proposed procedures for the implementation of the OCS leasing program are better suited to the realities of exploration on the Alaska OCS. The revised program takes into account the remoteness of the Alaska OCS areas, the seasonal constraints on operations in Alaska, the extraordinary cost of operations, and the long lead times required for exploration and development. More importantly, the procedures recognize the need to expedite the exploration of the Alaska OCS.

We are encouraged by the initiatives being taken by the Department of the Interior which we believe will lead to the responsible opening Alaska's frontier OCS areas. Our society faces a critical need for additional energy supplies. Meeting this need depends in large measure on the opportunity to explore the Outer Continental Shelf of Alaska. We have lost precious time--literally years--in debate over OCS leasing programs.

We must not continue to lose the opportunity to explore for badly needed resources from the Alaska OCS because of delay and self-imposed impediments to the exploration of the promising Alaska OCS.

Attached for the Subcommittee's reference are AOGA's comments addressing the operational capability of the industry to explore for and develop oil and gas resources in Alaska frontier OCS areas and a supporting exhibit. We request that this material also be made a part of the record for the October 28 hearing of your Subcommittee.

Thank you for the opportunity to express the Association's support for the proposed Five-Year OCS Oil and Gas Lease Sale Program and the constructive, innovative procedures offered by the Department of the Interior for implementing the revised program.

Very truly yours,

WILLIAM W. HOPKINS
Executive Director

WWH:mc

Attachments: "Industry Capability to Operate in Frontier OCS Areas", AOGA

EXHIBIT: "Arctic Drilling and Production Systems", by H. O. Jahns

Supporting Exhibit A

List of Arctic Technology References

Overview of Arctic Research and Engineering

1. Kreider, J. R. and Prince, J. F. (1981), An oral presentation of Industry Arctic Research made to the Marine Board on April 20, 1981.

2. Panel on Sea Ice Mechanics of Marine Board (1981), Research in Sea Ice Mechanics, a publication of the Marine Board of the Assembly of Engineering, National Academy Press, Washington, D. C.

3. Panel on Arctic Seafloor Engineering of Marine Board, a report to the Marine Board, to be published.

4. Sackinger, W. M. (1980), Report of the Workshop on Arctic Oil and Gas Recovery, U. S. Department of Energy, Office of Oil, Final Report for Contract No. DE-AOOI-80ET14317, 2 volumes, September.

* 5. Lease Sale Planning and Research Committee of the Alaska Oil and Gas Association. A Compilation and Description of Industry Research Projects in Alaska Frontier OCS Areas, available from AOGA, Anchorage, Alaska.

* 6. Exxon Production Research Company (1981), Arctic Technology Bibliography.

Exploration and Development Concepts for the Arctic

7. National Petroleum Council, a report on U. S. Arctic Oil and Gas prepared by the National Petroleum Council's Committee on Arctic Oil and Gas Resources to the Secretary of Energy, to be published.

8. Exxon Company, U.S.A. (1979), Technical Seminar on Alaskan Beaufort Sea Gravel Island Design, presented in Anchorage, Alaska and Houston, Texas.

* 9. Jahns, H. O. (1981), Arctic Drilling and Production Systems, presented at Conference on the Future of Oil and Gas from the Sea, University of Delaware, Newark, Delaware, June 17-20.

*Attached

3.

A COMPILATION AND DESCRIPTION OF INDUSTRY RESEARCH PROJECTS IN ALASKA FRONTIER OCS AREAS

Prepared by

LEASE-SALE PLANNING AND RESEARCH COMMITTEE
OF THE
ALASKA OIL AND GAS ASSOCIATION

ARCTIC DRILLING AND PRODUCTION SYSTEMS

By Hans O. Jahns

Draft Text of a Paper to be Presented at the
Conference on the Future of Oil and Gas from the Sea,

A National Conference Organized by the
Center for the Study of Marine Policy
University of Delaware
Newark, Delaware
June 17 - 20, 1981

NOTE: This is a Review Paper, based mainly on previously published information. Parts of the text have been excerpted from an earlier paper by the author, entitled "Arctic Platforms", which appeared in The Proceedings of a Symposium on Outer Continental Shelf Frontier Technology, conducted by the Marine Board, Assembly of Engineering, National Research Council, National Academy of Sciences, Washington, D. C., 1980.

5.

ARCTIC TECHNOLOGY

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1A Port and Ocean Engineering Under Arctic Conditions
1979 Conference Agenda

1B Port and Ocean Engineering Under Arctic Conditions
1981 Conference Agenda

2A International Association for Hydraulic Research
Symposium on Ice Problems
1978 Conference Agenda

2B International Association for Hydraulics Research
International Symposium on Ice
1981 Conference Agenda

Senator WEICKER. We now have Mr. Arthur Rocque, Director of Environmental Planning, Department of Environmental Protection, State of Connecticut on behalf of the Coastal States Organization.

We will insert your prepared statement into the record. We can only hold this room until 10:30 a.m. I would appreciate it if you could summarize your statement.

STATEMENT OF ARTHUR J. ROCQUE, JR., ON BEHALF OF THE COASTAL STATES ORGANIZATION

Mr. ROCQUE. Thank you, Mr. Chairman. I will summarize my summary.

I am here representing the Coastal States Organization which gives the prospective of all States. I have three points which I would like to make basically.

The States are not generally opposed to an increase in lease sales but there are several legitimate concerns. Those concerns are in my testimony.

The second point is a working partnership between the Federal Government and particularly the Department of the Interior and the Department of Commerce and the coastal States is critical to the success of this program.

Information must be shared in a timely fashion. It is not the time line in the lease sale that is of the most concern. It is the information and the quality of that information that is available to the States.

There are a couple of reports which have been issued recently. One was on February 11 and a supplemental report on July 23 of this year by the Department of the Interior's National OCS Advisory Board and specifically their policy subcommittee.

I would encourage they be included in the record of this hearing as well because the recommendations and conclusions of those reports are very pertinent to that point and to some of the other points raised today.

The third issue to be raised is that of money. We are talking about increasing the lease sale activity substantially in this country yet we are not talking about increasing any of the funding, either funding for the Federal agency, which the GAO report points out as being overstripped by the current schedule of staff and Interior is generally not capable of handling the lease sales at their current level of staffing and no funding increase is allowed in the budget for them.

On the other hand from the State perspective, coastal zone management funding under the Coastal Zone Management Act which is the act which supports most of the technical staff at the State level that reviews lease sales and the onshore impacts is being phased out.

The States recognize the Outer Continental Shelf is a national territory and not a State territory. However, the States get the benefit of all the boom growth impacts onshore. It is the coastal zone management programs in the States that provide a national perspective for the States.

There were rules that were developed from a national perspective that the States adhere to. I would urge that be continued.

There is a piece of legislation just recently raised in the House by the House Merchant Marine and Fisheries Committee, House bill 4597, which interestingly enough in the face of the administration's withdrawal of the regulations for directly affecting under the Coastal Management Act amends both section 19 of the Outer Continental Shelf Lands Act Amendments and the Coastal Zone Management Act 307 consistency procedures.

The States are very concerned about that because that is in essence legislation that would cut substantially into the States' review time and their responsibilities and particularly with regard to prelease activities.

That legislation may also offer the best solution in that there is a block grant proposed using OCS receipts, a revenue sharing idea similar to those programs such as the Mineral Leasing Act that shares similar revenues with inland States. I would urge you consider that.

Thank you.

[The prepared statement of Mr. Rocque follows:]

TESTIMONY OF THE

COASTAL STATES ORGANIZATION

BEFORE THE

SENATE SUBCOMMITTEE ON ENERGY CONSERVATION

AND SUPPLY OF THE COMMITTEE ON

ENERGY AND NATURAL RESOURCES

OCTOBER 6, 1981

Mr. Chairman and Members of the Subcommittee:

My name is Arthur J. Rocque, Jr. and I am testifying before you on behalf of the Coastal States Organization (CSO). In addition to being Director of Environmental Planning and delegate for the Coastal States Organization for Connecticut, I am Chairman of the CSO Study Committee for Future Funding of Coastal and Marine Related Programs.

CSO is a membership organization of those states, commonwealths and territories having an ocean, gulf of Great Lakes boundary. Members of CSO and its governing body are formally appointed by their respective governors. The purpose of the organization is to represent and promote the states perspectives, developed by consensus, on coastal and marine related issues.

My purpose here today is to testify on the Department of Interior's proposed Five Year Leasing Schedule for the Outer Continential Shelf (OCS). While CSO will not have the opportunity to take a formal position on this issue until its quarterly meeting this fall, I believe my testimony accurately reflects the majority opinion of the membership. It should be noted that this issue under discussion here today is not new to CSO.

OCS Five Year Leasing Schedule

At the onset let me state that, in general, coastal states support the Department of Interior's (DOI) goal of offering high quality acreage for leasing. However, because of the complexity of the leasing process and the inherent issues it raises for the states, there are several noteworthy concerns that should be raised. Both the Outer Continental Shelf Lands Act Amendments (OCSLAA) and the Coastal Zone Management Act (CZMA) provide for state participation in the leasing process and, in their present form, have been shown to create an effective mechanism for such participation. Recent initiatives in the U.S. House of Representatives supported by industry and the DOI to revise these state participation guarantees are of serious concern to the states. I am specifically referring to amendments to Section 19 of the OCSLAA and Section 307 of the CZMA which would reduce or eliminate the states role in OCS activities, particularly with respect to pre-lease sale procedures, and reduce substantially the time deadlines under which states conduct federal consistency reviews. Faced with elimination of federal support for coastal management and related programs and a concomitant sharp increase in OCS lease activity, any reduction of states participation is viewed both with suspicion and serious concern.

A principal concern of the states is the new format proposed under the new schedule, that of offering large areas rather than more defined tracts. This new approach does not appear to be an efficient alternative from either the state or the federal perspective. Including OCS areas in the offerings which have no oil or gas bearing geologic structures, such as the Gulf of Maine for example, requires the DOI to include in their environmental impact statement (EIS) areas within which there will be no drilling activity but within which there are other activities of significant economic or environmental interest such as fishing. Not only does this put a burden on the federal agency (DOI) in unnecessarily complicating preparation of the EIS, it also places a burden on the states and other reviewers by requiring evaluation of areas covered in the EIS for which there is little or no industry interest. It is recommended that, as an alternative, some form of defined area selection be retained. Initially defining the "call" area by geologic potential for hydrocarbons, industry interest and environmental sensitivity appears to be a workable approach. In addition, the DOI should specify the type of information to be submitted by industry at the "call" stage of the leasing process. At a minimum, industry should provide some rating of their interest in the various areas covered by the "call" using the DOI protraction diagrams as a base to define them.

Another principal concern of the states is that of sharing of necessary and critical information in a timely matter. While this may seem to be a minor point, it very likely is the central issue in the OCS leasing process. Much of the litigation and all of the delays in OCS activities hinge on the issue of information (or lack thereof). In fact, the major conclusion of the DOI's National OCS Advisory Board's Report on the OCS Leasing Program (February 11, 1981) was that the DOI was failing to either require or provide to states the necessary information; that the DOI had apparently failed to adhere to the informational and state participation requirements of Sections 8(g), 18(c)(2), and 19(c) of the OCSLAA; and finally that much of the litigation over OCS activities was a result of the DOI's failure to meet these requirements or to place any noticable credence in states comments. To underscore this last point I might note that California's recent suit against the DOI under the federal consistency provisons of the CZMA, a suit joined by CSO, came after the Secretary of the DOI rejected the states petition for tract deletion. The fact that the rejection came a scant twenty two (22) hours after the state had submitted over five hundred (500) pages of documentation for the petition leads one to conclude the National OCS Advisory Board's conclusions are on target. (It should be noted California is not the only state to have faced these problems. North Carolina and Alaska have been similarly agrieved and a host of states joined with CSO in supporting the California litigation.)

Several recommendations are pertinent to the information exchange process between the DOI and the states. The information collected by the Bureau of Land Management (BLM) and the United States Geological Survey (USGS) prior to announcing a lease call should be sent to the states as early in the process as possible. This information allows states to concentrate their efforts on those issues where information is lacking or where, due to relative importance of a particular issue, the analytical work needs to be improved. Such early release has two primary benefits. First, it allows states to utilize their scarce staff resources more prudently and efficiently rather than duplicate available information. Second, it serves to avoid the potential for conflict and delay later in the leasing process due to lack of needed information.

Another information exchange between the DOI and the states which must be maintained is the EIS scoping meetings. These meetings provide an opportunity to identify and discuss issues and to reach agreement on the information and analysis to be generated

on lease sales early in the process. The primary benefits are exactly the same as those sited above, particularly with respect to avoiding the potential for later conflict and delay. It is recommended that EIS scoping meetings be scheduled within sixty (60) days of lease area selection.

The need for information exchange in a timely and forthright manner clearly permeates the entire leasing process from beginning to end. As previously stated, the coastal states support development of offshore hydrocarbon resources but, since they bear the brunt of all the adverse environmental and boom-growth impacts within their coastal zones, states have legitimate concerns which must be addressed; concerns that were recognized by Congress as in the national interest in the language and requirements of both the OCSLAA and the CZMA.

A process can be streamlined without substantially weakening it. The states contend that there is adequate flexibility in the procedures set by the OCSLAA and the CZMA to meet these goals without weakening by amendment the provisions of either Act. It is interesting to note that in recent testimony before the Panama Canal and Outer Continental Shelf Subcommittee of the House Committee on Merchant Marine and Fisheries documentation of delays in the leasing process most frequently lay with the federal agencies rather than the states. Rarely do states use the full term of the response deadlines allowed by law. When they do, the cause is a delay in the provision of information or in processing a necessary federal permit such as an National Pollution Discharge Elimination System (NPDES) permit as was the case in North Atlantic Lease Sale No. 42.

Providing states with necessary information early and throughout the process and working with them in a meaningful way on tract deletion and the development of lease stipulations will serve to better streamline the process and likely result in less potential for litigation. The key here is to establish a meaningful partnership clearly intended by the OCSLAA and the CZMA. By way of further example, providing the states the notice of sale (NOS) for federal consistency concurrence under the CZMA at the same time that a draft NPDES permit is available serves to reduce delay by making federal and state time frames for action essentially coinciding. This, together with the meaningful information exchange previously mentioned, will provide a high level of certainty for exploratory drilling by industry when they bid on specific tracts.

The final, and perhaps ultimately the most critical, point I would like to raise is that of money. The state's perspective, bolstered by a recent General Accounting Office (GAO) report on the OCS leasing process, is that the DOI is hard pressed under current budget and staff in key BLM and USGS offices to handle the leasing schedule as it exists. To expect them to handle a sharply increased (and less sharply focused or defined) leasing schedule without additional manpower appears to be overly optomistic. The same situation is true for the states. The vast majority of technical staff in the states that are necessary for reviewing and processing the state components of OCS lease sale activities are supported by federal grant funds under the CZMA. Yet we are faced with a phase out of these funds. To accelerate the leasing schedule, phase out funding support for state staff and to reduce the response deadlines under the OCSLAA and the CZMA, as a bill proposed last week by Chairman Jones of the House Merchant Marine and Fisheries Committee would do, is to beg trouble. The forseeable result is at best confusion and inefficiency and likely open hostility between the DOI and the states manifesting itself through increased litigation.

While the proposed House bill is potentially part of the problem, it may also offer the best chance for a solution. As part of the bill, a system of sharing a modest portion

of OCS lease receipts with the states is proposed. The system is based on a concept paper on the issue released by the House Committee staff early last month. It is an idea, at lease in principal if not in detail, that CSO supports. Such a system or its equivalent is critical to effective state participation in OCS leasing activities, as well as the related, broader coastal management activities, given recent federal budget cuts. Let me offer CSO's perspective on this concept.

OCS Revenue Sharing

A dominant underlying theme in these comments has been that of "national interest." The OCS Lands Act identifies offshore energy development as an important national interest. The CZMA identifies management of coastal development by the states as a national interest, providing in Section 303 a list of national objectives to be met by the states. It would seem, in fact, that the only aspect of this business that is not related to the national interest is the current Administration's unwillingness to continue funding support to state programs developed, at least in part, to promote the "national interest." Not only does this no funding position expose the hollowness of the Administration's commitment to transfer authority and associated resource support to state and local governments, it exacerbates the inequity of an already existing system of revenue and receipt sharing between the federal government and inland states.

Before I present the basis for CSO's strong support for this OCS revenue sharing concept, an historical perspective is necessary. The Congress has declared that there is a national interest in the effective management, beneficial use, protection, and development of the nation's coastal zone. At the same time, new and expanding demands for food, energy, minerals, national defense, recreation, waste disposal, transportation, and industrial activities in the Great Lakes, territorial seas, and federally owned Outer Continental Shelf are placing increased stress on coastal areas. To resolve the serious conflicts among important and competing uses and values in the coastal zone, the Congress enacted the Coastal Zone Management of 1972 to encourage states to develop and implement coastal management programs.

The CZMA is a voluntary law. States are not required to develop coastal management programs. To encourage states to participate in the national coastal management effort, the CZMA authorized federal funds to be provided to states for the development and implementation of their coastal management programs.

In 1976, the CZMA was amended to establish the federal Coastal Energy Impact Program (CEIP), to help states meet the significant costs being imposed upon them by accelerated energy development, and in particular by increased petroleum exploration and production drilling on the OCS. The CEIP provides grants and loans for a wide variety of uses designed to prevent, mitigate, or address the adverse impacts of coastal energy development. The CZMA was also amended to include a specific requirement that, as part of their coastal management programs, states must plan for energy facilities likely to be located along their coastlines, and to anticipate and manage the effects of these facilities.

The CZMA was scheduled to terminate at the end of 1980. In considering proposals to reauthorize law, the Congress studied a number of options. Ultimately, the Congress unanimously reauthorized the CZMA for five years, without making any substantive change except to add further types of activities that could be supported with CZMA funds. In early 1981, the Reagan Administration proposed that all funding under the CZMA (including the CEIP) be terminated in fiscal year 1982. Funds for coastal research under the SEA Grant program, which are critical to sound coastal management decisions, were also proposed for termination. While Congress rejected these proposals and provided some limited funds for coastal management and coastal research, this assistance will be further reduced or eliminated over the next few years.

Even as the funding necessary if states are to maintain their coastal management capabilities is cut, coastal energy development is expected to further accelerate in the near future, The Interior Department's five-year leasing schedule calls for close to a billion acres of federally owned offshore land to be offered for lease for oil and gas exploration and development. As important and needed as this increased energy development may be, national policy dictates that this development should take place only within the context of comprehensive state coastal management programs. Moreover, while states may receive some potential benefits from OCS activities, they clearly will receive all the adverse environmental, safety, and boom-growth consequences. Again I emphasize that virtually all federal financial assistance to support the vital research, coastal management, and impact mitigation programs is being eliminated in the face of an accelerated OCS program.

To address this problem, CSO has been investigating alternative means for funding coastal research, management, and energy impact mitigation programs. States could, of course, impose a tax or fee on coastal activities or developments in order to support coastal management programs. But because, by definition, the OCS is outside their territorial boundaries, coastal states are prohibited from directly taxing OCS activities. However, this constraint is not imposed upon inland states which are authorized to impose severance taxes on minerals produced from onshore federal lands. There are many legal and historical precedents for the federal government to share a portion of its receipts from OCS leasing with affected states. Most of these precedents relate to activities on federally owned land within state boundaries. (See Attachment A.)

The federal laws governing funds received from mineral leasing and extraction, timber harvesting, and stock raising and grazing on federal lands provide that a portion of the lease receipts must be shared with affected states. These funds are intended to compensate states for property tax revenues lost due to federal ownership of land, and to compensate states and local governments for environmental, social, and economic impacts due to the federal lease activities. Furthermore, the Land and Water Conservation Fund derives most of its funding from OCS lease receipts, and is available to all states for the acquisition of land and waterways for use as parks and other recreational areas. Based on these precedents, and on the national need for nation-wide coastal management, research, and energy impact mitigation programs, CSO strongly supports the proposal that a modest portion of the federal OCS leasing receipts should be shared with coastal states and territories to support these coastal management activities. While OCS activities may not be within state boundaries, their impacts are, as are the impacts of the previously mentioned activities for which inland states receive federal revenue sharing. Without question there is no parity for coastal states in terms of the financial benefits shared with inland states subject to federal lease sales. Yet the need and certainly the Congressional statutory expression of national interest for management and mitigation programs in coastal states is clearly greater. This equity argument alone is reason enough to give the idea of receipt sharing serious consideration.

Projected Inland Mineral Leasing Receipts, and
Offshore Mineral Leasing Receipts, and
Projected States' Share
(Dollars in Billions)

	Inland		Offshore	
	Total	States' Share	Total	States' Share
1982	$ 1.5	$ .8	$11.0	$ 0
1983	1.6	.9	12.2	0
1984	1.8	.9	13.3	0
1985	1.8	.9	13.9	0
1986	1.8	.9	13.9	0

Source: 1981, Bureau of Land Management, U.S. Department of Interior

All coastal states and territories, not just those adjacent to OCS activities, should be eligible for these funds. Sharing OCS receipts only with coastal states directly adjacent to OCS activity has been rejected by CSO. There are several reasons for this position. First, the revenues directly derived from energy development offshore a particular state might not reach that state in time to address or mitigate the impacts of OCS-related development. Second, revenues might go to a directly adjacent state although the impacts are more severely felt in another state due, for example, to prevailing ocean currents or the location chosen by industry for onshore support and processing facilities. Third, if revenues are earmarked exclusively for directly adjacent states, financial considerations might override the states interest in discharging its review responsibilities with due regard for fragile coastal resources or organisms. And finally, that approach does not recognize that coastal management, its related research and energy impact programs have been determined by Congress to be in the national interest and deserving of federal support independent of direct OCS activity.

Funds from OCS revenues should be distributed based on a formula which takes into account OCS activity, other coastal energy activities, state coastline length and population, and, most importantly, the presence of a federally approved state coastal management program. Use of the funds should be tied directly to these and other coastal management related research activities to prevent their use to finance state or local programs unrelated to coastal management or energy impact mitigation. The recently popularized block grant approach outlined in the concept paper, with safeguards to assure funding of the key components of coastal management, energy impact mitigation and marine related programs, is one acceptable means of conveying these funds to states.

In summary, the OCS receipt or revenue sharing proposal in the recently raised House Bill is a concept that CSO and it's member states support. It is consistent with the Reagan Administration's expressed philosophy of shifting the responsibility for many public services from the federal government to state and local governments, and of moving toward block grants to support these programs. It would also result in a more equitable arrangement for sharing of federal receipts from both inland and offshore activities on federal lands, and would support the expressed national interest in protecting and wisely using our nation's finite coastal resources.

On the other hand, if some of revenue sharing for OCS receipts does not accompany proposed amendments to the OCS Lands Act and the CZMA, in view of the current budget reductions for coastal programs, many states are likely to abandon efforts to manage coastal resources on behalf of the nation. States, having less time and less money, will strain to participate in the national OCS program which will undoubtedly lead to conflicts with associated costs and delays for OCS development. Sensible congressional action can help to avoid these serious problems.

Arthur J. Rocque, Jr.
Coastal States Organization
October 6, 1981

ATTACHMENT A

The National Forest Revenue Act (16 USC 500)

The National Forest Revenue Act of 1908 provides that 25 percent of the federal national forest receipts from timber harvesting, mineral leases, and other uses, be shared with the counties containing the forest lands (actual payment is made to the states, which must then distribute the money among the affected counties). Receipts are to be used to build roads and schools. States will receive an estimated $275 million from this program in fiscal year 1982.

The Mineral Leasing Act (30 USC 181 et. seq.)

The Mineral Leasing Act of 1920 defined the process of leasing federal inlands for mineral extraction purposes. To provide "equity" to affected states, and as an incentive for settling then relatively unpopulated western lands, the Act provided for payment of 37-½ percent of all federal mineral leasing revenues to the states in which federal land was being leased. Again, the funds were to be used for building roads and schools made necessary by the increased economic activity.

In 1976, under the Land Policy and Management Act, the Congress amended the program, increased the states' share of receipts to 50 percent (Alaska receives 90 percent), and broadened the use of funds to include planning for the provision of all public facilities needed to mitigate impacts from federal activities. State receive a flat payout of these funds, to be used at the discretion of the governor and legislature, and no monitoring of the final use of such funds is conducted by the Department of the Interior. Estimates are that over $700 million will be available to the affected states in fiscal year 1982. The federal office of Management and Budget estimates that because of additional mineral leasing (primarily coal leasing), payments to states will increase by $167 million in fiscal year 1983, $85 million in fiscal year 1984, and $104 million in fiscal year 1985.

The Taylor Grazing Act (43 USC 315 et.seq.)

The Taylor Grazing Act of 1934 provided that a 50 percent share of all federal grazing and stock raising receipts from leases on federally owned lands be forwarded to the states, to spend without limitations on use, to benefit the affected counties. Amendments passed in 1947 and 1976 reduced the percentage to 12-½, although Indian lands ceded to the U.S. for disposition receive a higher percentage, divided between the state and the Indians.

Payments in Lieu of Taxes (P.L. 94-565)

The Payment in Lieu of Taxes Law was enacted in 1976; it recognizes the property tax inequities of federal land ownership, and provides either an additional payment of 10 cents per federally owned acre to those states receiving receipts from other federal lease receipt programs, or 75 cents per federally owned acre, whichever is greater. Minimums and maximums are built in. Although the Carter Administration has requested $45 million for the program in fiscal year 1982, dependent upon new legislation, and changes in the allotment formulae.

The Land and Water Conservation Fund (16 USC 460L)

The Land and Water Conservation Fund is supported by federal revenues received from surplus federal property sales, motor boat fuels tax, and OCS lease receipts. Enacted in 1964, the fund is required to have an income of $900 million dollars per fiscal year, for fiscal year 1980-1989. (This is an increase from $300 million in 1977, $600 million in 1978, and $750 million in 1979.) The Land and Water Conservation Fund is to be used by both the federal government and the states, to acquire new lands and waterways for parks and recreational purposes.

The law states that if the other funding sources do not bring the total annual income of the fund to the specified level, then an amount sufficient to cover the remainder thereof shall be credited to the fund from revenues due and payable to the United States...as miscellaneous receipts under the Outer Continental Shelf Lands Act, as amended (43 USC 1331 et. seq.). On fiscal year 1980, $806 million were credited to the fund from federal OCS lease receipts. Estimated for transfer to the fund will be $757 million in fiscal year 1981, and $754 million in fiscal year 1982. Currently, there is an unappropriated balance in the fund of $648 million, and there is a freeze on the acquisition of any new lands for federal parks.

SUBCOMMITTEE ON THE 5-YEAR OCS LEASING PROGRAM REPORT

February 11, 1981

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ABSTRACT

The Outer Continental Shelf Policy Committee (OCSPC) at its April meeting in Corpus Christi established a subcommittee, which was charged to:

"monitor the implementation of the 5-year leasing program and to aid and assist the committee in resolving conflicts surrounding implementation of these and other provisions of the OCS Lands Act Amendments; (OCSLAA)".

Since the 5-Year Leasing Schedule will be the driving force on OCS matters, the charge clearly indicated the necessity for looking at provisions of the OCSLAA.

The Subcommittee, in responding to this charge, solicited input from all members of the OCSPC, the Department of the Interior (DOI), and industry. The Subcommittee was aware of the efforts underway by other organizations to evaluate the OCS Program and propose federal legislation to change it. The Subcommittee has used the suggestions submitted and has reviewed all documents available to it in making its recommendations.

The Subcommittee has met a total of five times and has presented one Interim Report to the OCSPC at the Providence meeting in October, 1980. The views expressed at that meeting have been considered in making the recommendations.

The Subcommittee identified several problem/conflict issues pertaining to the 5-Year Leasing Schedule, its implementation, and other provisions of the OCSLAA which it felt deserved the attention of the OCSPC. These were the role of the Regional Technical Working Groups; the current 5-Year Leasing Schedule; the rationale, criteria, and information used by DOI in the preparation of cost/risk analysis and making scheduling decisions; the BLM Environmental Study Program; the timing of activities in the pre-sale planning and leasing process; and the possibility of avoiding conflicts and

simplifying permitting by cooperative arrangements between the federal and state governments.

The Subcommittee has identified that delays and litigation are resulting because of communication problems and a critical lack of proper and timely information for decision making processes throughout the OCS Program - particularly, in regard to Sections 8, 18, 19, and 102 of the OCSLAA. The Subcommittee, therefore, has concerned itself with how it might be possible to improve the interaction processes between the state and DOI in the areas of consultation and communication.

The Subcommittee recommends that the full OCSPC give consideration to:

1. Improving the efficiency of the OCS Policy Committee by making its meetings more productive.
2. Improving direct communications with the Secretary and his staff, including more frequent and effective use by the membership of the staff personnel most intimately associated with the OCS Policy Committee.
3. More clearly defining the roles of the various components of the OCS Advisory Board and their relationships to DOI and each other.
4. Preventing delays in the 5-Year Leasing Schedule similar to those that have occurred in the past schedules; the OCSPC recommending to the Secretary that he establish a working group with experts from DOI, OCSPC, and industry to clarify the rationale and the criteria used in decision making.
5. Revising the existing 5-Year OCS Leasing Program to comply with the provisions of the OCSLAA.

6. Recommending to DOI the development of a 5-year study program based on the information needs of the 5-Year Leasing Schedule since adequate, proper, and timely information is developed primarily by the BLM Environmental Study Program.

7. Recommending to the Secretary that he request the other federal agencies responsible for oil pollution research to coordinate their research in order to supply information to the DOI 5-Year Leasing Schedule.

8. OCSPC recommending to the Secretary the establishment of a working group of experts among DOI, OCSPC, and industry to shorten the frames and the documentation required under the pre-leasing to the production stages of OCS operations.

9. OCSPC recommending to the Secretary that the full OCSPC establish a subcommittee with the responsibility of working with DOI, the industry, and the scientific committees of the OCS Advisory Board to determine the rationale and criteria upon which a lease termination might be based and examine the effects and cost of such a termination to increase the possibility of exploration drilling in frontier areas.

I. Purpose of the Subcommittee

At its April meeting in Corpus Christi the OCS Policy Committee established a subcommittee with the charge to:

> ..."monitor the implementation of the 5-year leasing program and to aid and assist the committee in resolving conflicts surrounding implementation of these and other provisions of the OCS Lands Act Amendments;"

Prior to beginning Subcommittee deliberations the Chairman solicited input from the DOI through the Executive Secretary of the OCS Policy Committee and from all members of the full OCS Policy Committee. Responses were received from the State of Alabama, State of New Hampshire, and DOI. The State of New Hampshire requested that we review "how responsive the Interior has been to the states' concerns in the implementation of the 5-year program" and "to identify important issues within the leasing program which required a longer review before accurate assessments could be given". The DOI requested that we "should devote time to taking a critical look at the entire (OCS pre-sale planning and leasing) process to determine whether, where, and how we can improve on what has been put in place." DOI indicated their intention to undertake such a review and requested that we submit "any questions as to how we (DOI) may best involve the Leasing Program Subcommittee, and the entire OCS Policy Committee". DOI supplied the Subcommittee with the states' comments on the implementation of the present 5-year Leasing Schedule and the DOI responses to them. In addition, the Chairman requested that the States of Alaska and California supply all of the comments they made to the 5-Year Leasing Schedule and the Environmental Impact Statements for scheduled sales to the Subcommittee.

The Subcommittee is aware of other OCS Program evaluation efforts underway and has reviewed the "Evaluation Panel Report Review of Federal Program in Environmental Impact Studies of Petroleum in the Marine Environment" conducted for the Interagency Committee on Oceans Pollution Research Development and Monitoring (COPDRM). The Subcommittee was asked to review the GAO report and comment on its findings to the full committee. However, the GAO report was not complete and, therefore, could not be reviewed. The Subcommittee is attempting to meet with the GAO staff. Also, since the Providence, Rhode Island, OCS Policy Committee meeting, the Subcommittee has received DOI's request for comments regarding revision or reapproval of the existing 5-Year Leasing Schedule.

II. Summary of Subcommittee Activities

A. Meetings

Members of the Subcommittee met formally five times:

Sacramento, California - July 18, 1980

Attendees: Lennie Boston, Alaska
Deni Greene and Gary Midkiff, California
Jon Christensen (telephone communication), Oregon
Murice Rinkel, Chairman, Florida

Seattle, Washington - August 25, 1980

Attendees: Lennie Boston, Alaska
Deni Greene and Gary Midkiff, California
William Howe, Louisiana
Murice Rinkel, Chairman, Florida

Denver, Colorado - September 29, 1980

Attendees: Lennie Boston, Alaska
Deni Greene and Gary Midkiff, California
William Howe, Louisiana
Patricia Jerman, South Carolina
David Kinsey, New Jersey
William Phillips, PCCO
Murice Rinkel, Chairman, Florida

Providence, Rhode Island - October 21-22, 1980

Attendees: Lennie Boston, Alaska
William Gipson, POGO
Deni Greene and Gary Midkiff, California
Patricia Jerman, South Carolina
David Kinsey, New Jersey
Alan Powers, DOI, Washington, D.C.
Murice Rinkel, Subcommittee Chairman, Florida
Hal Scott, OCS Policy Committee Chairman

Denver, Colorado - January 12-13, 1981

Attendees: Lennie Boston, Alaska
William Gipson and William Phillips, POGO
Deni Greene and Gary Midkiff, California
William Howe, Louisiana
David Kinsey, New Jersey
Murice Rinkel, Chairman, Florida

All travel funds were provided by the attendees. The state members' travel was supported by OCS participation grant funds. Meeting rooms were provided by the State of California in Sacramento, by DOI in Seattle and another in Denver, and in January, 1981, by the State of Florida in Denver.

B. Interim Report:

An Interim Report presentation was made to the OCS Policy Committee at its meeting in Providence, Rhode Island, on October 21, 1980.

III. Problem/Conflict Identification

In its Interim Report the Subcommittee recommended modification of the OCS Policy Committee meeting structure and an improvement of communication with the Secretary and his staff.

During its discussions several members of the Subcommittee raised their concern regarding a lack of understanding of the role of the Regional

Technical Working Groups (IPP). Specific examples were cited where it was felt IPP groups were being called upon to make policy decisions. While technical input is necessary for policy decisions, the IPP members were not appointed to perform this duty without consultation and advice from the policy members. In some cases, it appears that the IPP representative is failing to report to the policy representative, as specified in the OCSAB charter. Additional complications arise because there is no established mechanism whereby the OCS Policy Committee representative can report back to the IPP representative. Lines of authority and communication need to be clarified. The apparent cause of this conflict is the lack of a clear understanding between the states and the Department of the Interior regarding the nature and role of the IPP.

Following the review of all of the material mentioned above, the Subcommittee discussed the development of the 5-year leasing program and its implementation through individual lease sales. From this discussion it became clearly apparent that although the states and industry had different experiences and views regarding OCS leasing, they shared a common problem. This Subcommittee finds that a single critical issue permeates the entire DOI/OCS program and is not limited to the 5-Year Leasing Schedule or to any single party involved in the OCS Policy Committee. This single issue, in the opinion of the Subcommittee, involves DOI's implementation of critical provisions of the OCSLAA. The Subcommittee feels that the DOI has failed to "...assure that states...are provided an opportunity to participate in policy and planning decisions relating to management of the resources of the OCS:" (Section 102, OCSLAA). More

particularly, the Subcommittee feels that the DOI has apparently violated Sections 8(g), 18(C)(2), and 19(c) by:

a. failing (in production areas) to provide the states with consultation as provided in Section 8(g) and

b. not responsing in writing to requests that criteria and rationale for preparation of the 5-Year Leasing Schedule be identified and discussed publicly.

Although states have received some responses to their comments, these responses did not "communicate to the governors the reasons for his (the Secretary's) decision to accept or reject such governors' recommendations" as required by Section 19(c) of OCSLAA. There are instances where this has led to litigation and associated past schedule delays, and unless corrections are made, cannot help but continue to do so.

Heretofore, presentations made by the DOI regarding OCS leasing activities have seldom been supported by factual data or documentation of the reasoning process to afford states an opportunity to evaluate the decisions. Examples of DOI's actions, which have led to litigation and associated delays include:

1. DOI has not, in existing production areas adjacent to state waters, reached revenue sharing agreements as required by Section 8(g), or to respond to state requests for consultation as required by Section 19(c). This policy has, in the case of some states, forced the states to ask the courts to require that DOI comply with these sections of the OCSLAA.

2. In the preparation of its 5-Year Leasing Schedule, DOI introduced a proposed program and distributed it for comments. Although DOI received many negative comments and suggestions for modification of the

program from governors of affected states, the program subsequently adopted was essentially unchanged. Although specifically asked to do so, DOI refused to display the criteria and rationale used to fulfill the requirements of Section 18 of the OCSLAA. Because the program adopted by DOI and the arguments offered in support of that program do not appear to fulfill the requirements of Section 18, and because DOI failed to adequately respond to their requests or consultation as provided by Section 18(c)(2), others have petitioned the court to review DOI's 5-Year Leasing Schedule.

Had DOI in each of these cases complied with the purposes of the OCSLAA and treated the states in the manner prescribed by the Act, lawsuits might not have been necessary.

Likewise, the Subcommittee recommends that the OCS Policy Committee encourage DOI to modify its current procedures regarding requests from the states for full consultation and to give meaningful responses as required by OCSLAA; otherwise, regardless of who is at fault, lack of communication will undoubtedly lead to delays in production of OCS energy resources. Some delays may be the result of litigation. The Subcommittee has determined that these delays may occur at any stage in the process from leasing to production.

The subcommittee is unanimous in its findings that DOI's failure to respond adequately to states' recommendations and to explain or justify its decision regarding acceptance of the states' recommendations has led to conflicts, litigation, and unnecessary delays.

The Subcommittee has identified, as part of the above discussed communication problem, a critical lack of proper and timely information

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throughout the OCS process. The primary means of generating this information is the BLM Environmental Studies Program. However, the failure of DOI to properly structure this program, as identified by the Jamison resolution (OCSESAC meeting in 1976), the National Academy of Sciences Environmental Studies Program Review (June 17, 1977), and the CPDRM Report (January 15, 1981), have resulted in:

a. decisions being made without adequate information,

b. opposition to rapid exploration due to inadequate information, and

c. litigation to challenge questionable decisions.

Further, even if studies are properly structured, the existing procedures do not allow timely availability of information necessary in the leasing process. The lack of timely information has been documented as well in the above named reports. The increased number of sales in the 5-Year Leasing Schedule has emphasized the importance of adequate and timely information.

The Subcommittee's Interim Report states "The DOI requested that we 'should devote time to taking a critical look at the entire (OCS pre-sale planning and leasing) process to determine whether, where, and how we can improve on what has been put in place'. DOI indicated their intention to undertake such a review and requested that we submit 'any suggestions as to how we (DOI) may best involve the Leasing Program Subcommittee, and the entire OCS Policy Committee.'"

IV. Subcommittee Recommendations

The Interim Report, presented in October, recommended immediate action to: 1) improve the efficiency of the OCS Policy Committe by making its meetings more productive, and 2) improve communication with th Secretary and his staff.

In response to the Subcommittee's Interim Report Recommendations with regard to modification of the OCSPC, the Agenda Subcommittee has been reconstituted, and the Chairman has invited the Secretary and his staff to the February meeting of the OCS Advisory Board. Since the OCSPC has responded so favorably to our Interim Report in these areas, we have no further recommendations on the above items at this time. It is our anticipation that the Agenda Subcommittee's efforts will result in improved meetings, and that participation by the Secretary and his staff will result in improved DOI/OCSPC communication processes.

The Interim Report also presented several items for further discussion by the Subcommittee. These items were:

1. Role of Regional Technical Working Groups;
2. Current 5-Year Leasing Schedule;
3. Rationale, criteria, and information used by DOI in preparation of cost/risk analysis and making scheduling decisions;
4. Cooperative agreements as an opportunity for resolving conflicts and permit simplification;
5. DOI Environmental Study Program; and
6. Concerns about pre-sale planning and leasing process.

The Chairman of the OCSPC has requested that we make recommendations on these issues to the OCSPC. The Subcommittee has reviewed these six items and will not make any recommendations on Item 4 at this time. The Subcommittee feels that the remaining five items can be covered under three general areas of recommendations since its deliberations have convinced it that a number of the items interact in such a way that they

cannot be considered separately. The Subcommittee now offers recommendations in these three areas:

A. OCS Advisory Board - the roles of its components and their relationship to each other.

RTWG's were organized and their members chosen to advise the Secretary on scientific and technical issues of regional scope. The formation of the Regional Technical Working Groups was an important part in the DOI's attempt to develop regional study programs and transportation plans rather than the concerns of individual states or groups. For this reason the membership was limited to technical and scientific members instead of policy personnel. The Subcommittee feels these groups are extremely important in advising the Secretary of the DOI on such matters. Therefore, the RTWG's and BLM should recognize that it is inappropriate for them to consider policy issues per se. Under the OCS Advisory Board Charter, DOI regulations and the OCSLAA, state input to OCS policy decisions must be provided by the governor or his policy representative. When RTWG's identify concerns of scientific or technical nature which will affect policy decisions, they should advise state and federal policy officials. Although there is presently no provision for communication between the OCS Policy Committee and RTWG's, the Subcommittee recommends that the OCSPC and its individual members develop such a method for insuring proper communication between them in line with their charters.

B. 5-Year Leasing Schedule - rationale and criteria for its development and synchronization of BLM Environmental Study Plan with Leasing Schedule

The Subcommittee recommends to the OCSPC that the 5-Year Leasing Program be revised to comply with the provisions of the OCSLAA, and that the rationale and criteria upon which such revision is based be clearly presented to prevent further delays such as have occurred in the past. The decision making procedures connected with the 5-Year Leasing Schedule must have adequate and timely information to prevent delays and litigation. Most of this type of information should be coming out of the BLM Environmental Study Program. Unless this program is geared to the 5-Year Leasing Schedule, the data generated cannot be adequate or timely in decision making processes. It is recommended that the DOI develop a 5-year study program based on the information needs of the 5-Year Leasing Schedule. The Subcommittee recommends to the OCSPC that it recommends to the Secretary to coordinate with other federal agencies responsible for OCS related research to ensure synchronization of their programs with this 5-Year Environmental Study Program. Adequate information and understanding of DOI's decisions would avoid future delays and litigation. The Subcommittee suggests to the OCSPC that it recommends that the OCSPC serve as part of the task force supplemented by technical and scientific members of the OCS Advisory Board to assist DOI in the implementation of this recommendation.

C. Timing of the leasing process from pre-sale to production

DOI has asked that the Subcommittee devote some time to look at the pre-sale planning and OCS leasing process. The Subcommittee has reviewed this matter and believes that there are several areas in process where the time frames can be shortened and documentation

requirements reduced. The Subcommittee feels that the OCSPC and the Subcommittee can play an important part in the DOI review of the timing and related provisions of the leasing process. It recommends to the OCSPC that it participates, as requested by DOI, in this process and that a working group be established to provide the OCSPC's input.

V. Future Activities

The OCSPC Chairman asked that the Subcommittee include in this report a recommendation as to its future activities. The Subcommittee recommends that with the addition of a member of a North Atlantic region it serve as an OCSPC working group to assist in the revisions of the 5-Year Leasing Schedule and evaluation of the pre-sale plan and OCS leasing process. It believes that, with the addition of a member from the North Atlantic region, the Subcommittee could serve as an OCSPC working group set up on the 5-Year Leasing Schedule and the OCS pre-sale planning and leasing process working group.

The Subcommittee, in its discussions, believes that delays and litigation may be slowing down OCS activity because there is no clear understanding by industry and the states as to policies regarding terminations of OCS activities pursuant to Section 25(h) of the OCSLAA. Therefore, the Subcommittee recommends that the OCSPC establish one additional subcommittee with the responsibility of working with DOI, the industry, and the OCS Advisory Board Scientific Committee to (1) determine the rationale and criteria upon which a lease termination decision might be based and (2) examine the effects and costs of such a termination.

VI. Resolution

The Subcommittee recommends to the full OCS Policy Committee the adoption of the following resolution:

WHEREAS the new Secretary of the Interior has expressed an interest in working with State Governments, industry, and environmental groups and being a good neighbor; and

WHEREAS THE Secretary and the State Governments have many mutual interests in the management of public resources; and

WHEREAS open communication is an absolute necessity and a cooperative relationship so important to Outer Continental Shelf oil and gas leasing; and

WHEREAS the OCS Policy Committee can provide an essential mechanism for such communication and desires to do so:

NOW, THEREFORE, BE IT RESOLVED that the OCS Policy Committee welcomes Secretary Watt and invites him to immediately establish clear and regular communication with this Committee; and further,

BE IT RESOLVED that the OCS Policy Committee desires to continue to serve the Secretary in dealing with Outer Continental Shelf issues so important to federal, state, and local governments, the industry, and the public interest; and further,

BE IT RESOLVED that the OCS Policy Committee recommends that it continue to meet at least three times a year.

U.S. DEPARTMENT OF THE INTERIOR

NATIONAL OCS ADVISORY BOARD

OCS POLICY COMMITTEE

SUBCOMMITTEE ON THE 5-YEAR

OCS LEASING PROGRAM

Supplemental Report

July 23, 1981

I. Purpose and Introduction

At its April 1980 meeting in Corpus Christi, the OCS Policy Committee (OCSPC) established a subcommittee to:

> "...monitor the implementation of the 5-year leasing program and to aid and assist the committee in resolving conflicts surrounding implementation of these and other provision of the OCS Lands Act Amendments..."

In February 1981, the subcommittee distributed a written report to the committee for discussion at a scheduled meeting in Charleston. Secretary Watt later cancelled this meeting and took the following actions:

April 16	Secretary Watt announced draft proposed revisions to the 5-year schedule
	Secretary Watt requested comments on steps to streamline the OCS leasing process
June 12	BLM released draft supplemental EIS on proposed schedule
early July	DOI announced agenda for August OCSPC meeting in Norfolk
July 15	Secretary Watt announced proposed 5-year offshore oil and gas leasing program
late July	Public hearings on BLM's draft supplemental EIS

On July 23, the Subcommittee on the 5-Year Program met in Denver to review the accuracy and timeliness of its report in light of Secretary Watt's proposals and to formulate recommendations on the proposed program and streamlining measures for consideration by the full Policy Committee at its Norfolk meeting. The attendees were:

William Gipson, POGO
William Howe, Louisiana
David Kinsey, New Jersey
Deni Greene, California
Gary Midkiff, California
Murice Rinkel, Chairman, Florida

II. Reapproval of the Subcommittee's February 1981 Report

The Subcommittee has carefully reviewed its February Report and finds that the analysis, conclusion, and recommendations remain valid and timely. The Subcommittee recognizes that the change in the Federal Administration provides a special opportunity for the Policy Committee and the Department of the Interior to consider carefully and act promptly on the Subcommittee's principal recommendations to imporve the OCS oil and gas leasing, exploration, and development process.

III. Supplemental Report and Recommendations

The Subcommittee has reviewed both the OCS oil and gas program proposals and the Department of the Interior's actions since February 1981 and offers supplemental recommendations for the Policy Committee and the Department of the Interior to consider. These recommendations cover three areas: (1) the relationship of the nation's OCS policy to the nation's energy and coastal policies, (2) the format and agenda of Policy Committee meetings, and (3) the proposed revised 5-year program and streamlining proposals.

1. Role of Coastal and Energy Policy in Shaping OCS Program

The DOI must recognize that U.S. coastal and national energy policies are broad bases upon which OCS oil and gas policy must rest. National energy and coastal policies should be prime considerations in determining OCS policy.

2. Format and Agenda of OCS Policy Committee Meetings

The Subcommittee feels that its recommendations on the format and agenda of the OCSPC's meetings are still valid. A review of the draft agenda for the current meeting, prepared by DOI without input from the agenda committee, reaffirms this finding. While we recognize that DOI had to arrange this meeting quickly, we feel that our previous recommendations would improve the effectiveness of the OCS Policy Committee's meeting and the quality of its deliberation.

3. Revisions in Proposed 5-Year Leasing

It is refreshing to see a proposal to streamline leasing procedures. However, we caution DOI not to discard valuable planning steps and environmental safeguards when simplifying the process.

The Subcommittee recommends several key points for DOI to include in further Program revisions. The first points are found in Section 18 of the OCS Lands Act Amendments which require that DOI consider the following items:

- sharing risks and benefits among regions
- relative environmental sensitivity and marine productivity
- location of OCS leases with respect to other uses
- laws, goals, and policies of affected states

Further points reflect a consensus of state and industry respondents to the draft proposed program. Sale areas should include a reasonable amount of acreage with high exploratory potential. To quickly identify recoverable hydrocarbons, certain tract offerings might stipulate that exploratory drilling occur early in the lease term. We recommend that the points listed below guide the DOI's continued efforts:

1) Include high quality acreage and concentrate initial exploration efforts in frontier areas with best prospects while protecting significant environmental resources.

2) select reasonably sized planning units in frontier areas which correspond to identifiable geologic basins, environmental regions, and onshore planning areas.

3) Do not lease unsafe areas, identified during presale geohazards analyses, which cannot be explored safely. (This avoids cancelling leases and reimbursing lessees.)

4) Study additional ways to encourage rapid exploration of highly promising frontier areas. One possibility is to offer large tracts (perhaps 10,000-20,000 acres) in certain promising areas for a 5-year term and require lessees to file permit applications within 60 days of receiving the lease. Upon receipt of permits, lessees would then have to undertake exploratory drilling within a reasonable time (such as 2 years) or relinquish the tract. Remaining tracts in the planning area should be of standard 5000-acre size.

5) Conduct the environmental studies necessary to prepare comprehensive EIS's on frontier areas. This will improve the quality of environmental review and provide adequate mitigation of adverse impacts.

   In frontier areas, sales should coincide with the completion of these environmental studies so that the lease sale EIS's are thorough. Comprehensive EIS's should be prepared for at least the first two sales. Once a complete data base is collected, EIS's for subsequent sales might be tiered to include tract-specific data, and reflect changes in the scope or circumstances of the sale.

6) Retain a preliminary tract selection process to narrow the area under consideration. This ensures that high quality, "high-interest", acreage is available. It will also ensure sufficient government and industry personnel and capital resources to evaluate oil and gas resource potential, and to analyze potential economic, environmental and social impacts.

   DOI's proposal for a Call for Information process and extremely large planning area (50-100 million acres) places a burden on industry, government, and the public to evaluate the potential resource and identify potential impacts. With fewer presale, basin-by-basin, resource estimates, the areawide proposal will provide planners and decisionmakers with less data to identify onshore or marine impacts and mitigation measures to avoid irreversible impacts. This evaluation is vital in order for BLM and DOI to balance risks and benefits, ensure sharing of risks among the various regions, consider the importance of other uses of the OCS, and consider the laws, goals, and policies of affected states. These responsibilities should be considered as set forth by the OCS Lands Act Amendments.

Senator WEICKER. I agree that the States certainly have the right to expect the environmental aspects of the drilling are going to be pursued and I think they have the right also to expect to know what the impact is going to be on the communities of any such drilling.

Where do we sit under present proposals?

Mr. ROCQUE. It is difficult, without being able to check daily to know where we do stand. Congress did add $30 million back for funding coastal management programs including $7 million for the coastal energy impact program which addresses some of Senator Murkowski's specific concerns.

That is scheduled to be phased down over a 2-year period. Currently the NOAA is trying to determine what kind of an allocation formula they are going to use on those funds.

We continually hear reports that the coastal zone management and CEIP funds are going to be the full target of the 12-percent reduction by the Reagan administration. It is somewhat up in the air. No one is really sure at this point as to exactly how far if at all those funds will last.

Beyond that there is no funding. The only opportunity we have seen to provide funding is through House bill 4597 which was released by Chairman Jones last Thursday.

Frankly, given the other Federal budget cuts, it is going to be pretty hard for the States to come up with that money on average. A CSO survey this spring indicated that about 90 percent of the States' coastal management programs and their OCS participation and the whole ball of wax will go down the tubes if funding is withdrawn.

Senator WEICKER. Are you concerned that with an accelerated leasing plan such as we are discussing being planned by Interior, that there will not be enough regard given to the environmental aspects of the plan and therefore a potential problem for the State?

Mr. ROCQUE. I think there is that potential. Most of the States feel there are adequate safeguards in the OCS Lands Act and the Coastal Zone Management Act if Interior will adhere to them. They do not always do that. A recent suit by California against the Department of the Interior on tract deletion on the most recent sale off southern California was in part a response to Secretary Watt's refusal to consider 500 pages of documented evidence supporting the petition to delete those tracts 22 hours after they were submitted.

That really does not show the Department of the Interior is spending a lot of time giving the States' concerns true regard.

I do not think in general we are concerned about the environmental aspects in the overall sense. The real problem with the leasing schedule as the States see it is it is becoming less focused, if you will. Going from tracts to areas makes it more difficult for a State to marshall its resources to investigate those activities and the areas that are specifically concerned. You have a broader area to cover and you do not have any more bodies to do it, simply put.

Senator WEICKER. Senator Murkowski?

Senator MURKOWSKI. I am somewhat confused on the funding of the coastal zone management. I wondered if I could ask the witness to clarify it. There is no provision that comes out of sale to fund it?

Mr. ROCQUE. There is not, sir.

Senator MURKOWSKI. Has that been contemplated, a funding mechanism that would be reasonable?

Mr. ROCQUE. Historically it has been contemplated. In response to that historical contemplation and the increased activity during the midseventies the 1976 amendments to the Coastal Zone Management Act put in place the coastal energy impact program which was basically a guaranteed budget to achieve the same benefits that some sort of revenue sharing activity would cover.

Senator WEICKER. If I may interject, Bob Wicklund has reminded me of what we did in the Appropriations Committee with respect to a $33 million being transferred from the coastal impact program into coastal zone.

As far as policy and correct me if I am wrong, the administration has coastal zone scheduled for extinction.

Mr. ROCQUE. Yes.

Senator WEICKER. I think this is one of the things that obviously should not be eliminated. I am not willing to write it off yet.

Senator MURKOWSKI. Thank you, Mr. Chairman. I also share your concern although my exposure to it is rather brief. If it were not funded, what safeguard would we have that there is a governmental agency overseeing for the benefit of the Federal Government and the States this obligation?

Mr. ROCQUE. It certainly makes it tough from the State perspective. I do not believe the Department of the Interior is scheduled for the same extinction the coastal management program is.

Unfortunately one of the only mechanisms left to the States in the face of reduced funds and staff is that of litigation as a holding action. That certainly does not serve anybody because that delays the process further and creates open hostility.

Senator MURKOWSKI. Mr. Chairman, I assume there will be more input on considerations for coastal zone management to continue.

Senator WEICKER. Thank you very much. Good luck to you in all your endeavors.

Our last two witnesses are Frances Bienecke of the Natural Resources Defense Council and Lee Weddig the executive vice president of National Fisheries Institute.

Please proceed.

STATEMENT OF FRANCES BEINECKE ON BEHALF OF THE NATURAL RESOURCES DEFENSE COUNCIL, INC.

Ms. BEINECKE. I am Frances Beinecke with the Natural Resources Defense Council and I have submitted my testimony for the record. It also is being submitted on behalf of a number of environmental groups including Defenders of Wildlife, Friends of the Earth, the Wilderness Society, the Center for Environmental Education and the Sierra Club.

To summarize our comments, I think I can fairly say that the environmental community is appalled by and opposed to the 5-year leasing program as proposed by Secretary Watt.

The massive increase in acreage, going from average sales of 600,000 to 1 million acres to now offering 9 to 100 million acres at one time, the consequences of this are very serious.

DOI admits the large scale offerings will preclude detailed environmental analyses of the offshore areas before a sale is held.

Because no tract specific environmental information will be available, environmental safeguards cannot be designed for the unique characteristics of the tracts that are going to be offered.

Existing litigation tools such as tract deletion and tract specific stipulation cannot be used effectively.

In the Interior Department's presentation this morning, they did not give any indication of what litigation steps they are proposing to use as an alternative to the presale steps that are currently being used.

We believe the 5-year program totally violates section 18 of the OCS Lands Act which requires a balance between the exploitation of hydrocarbons and the protection of the environment. With offering the entire OCS at one time there is no way for that balance to occur.

We are opposed to the streamlining proposals because they again preclude any kind of environmental analysis prior to the sale taking place. The Secretary has proposed to abandon these analyses as a part of the program.

Tract specific environmental and resource assessments will not be done. These will be turned into very general reconnaissance studies. Without tract specific resource assessments, it is difficult to assess the potential oil and gas resources expected to result from the sale and it is in turn difficult if not impossible to evaluate the onshore socioeconomic effects, the likelihood, location, and volume of potential oil spills or the fair market value of the tracts being offered.

DOI appears to assume these are not important. We think they are.

We are also opposed to the tiering of NEPA documents because we believe their proposed tiering does not comply with the tiering regulations of CEQ on NEPA.

The fundamental purpose of streamlining is to hurry sales along. Since the goal is to offer the entire OCS in 5 years, fundamental studies such as oil spill trajectories, hydrocarbon, and geohazard evaluations and site specific environmental studies must not be allowed to stand in the way; so goes the Interior philosophy.

The solution is not to modify these analyses but to eliminate them.

We are also concerned because the supplemental environmental impact statement did not detail what the environmental consequences of this program would be. In addition it did not offer alternatives to the streamlining proposals which we see as the most serious part of the program.

We are opposed to the increase in sales and the change in boundaries which results in the offering of the entire basins including Bristol Bay which previously was limited, the area to be offered was limited and now the entire area is proposed to be leased.

I think that summarizes our comments. We would be happy to answer any questions.

[The prepared statement of Ms. Beinecke follows:]

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TESTIMONY
OF THE
NATURAL RESOURCES DEFENSE COUNCIL, INC.

TO

THE SENATE ENERGY COMMITTEE
SUBCOMMITTEE ON CONSERVATION AND SUPPLY

ON THE JULY 1981

5 YEAR OFFSHORE OIL AND GAS LEASING PROGRAM

Frances Beinecke
October 6, 1981

On Behalf of:

Friends of the Earth
Defenders of Wildlife
Center for Environmental Education
The Wilderness Society
The Sierra Club

75
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The Natural Resources Defense Council appreciates the opportunity to testify before this Committee on Secretary of Interior James Watt's proposed 5-Year Offshore Oil and Gas Leasing Program. NRDC is an environmental advocacy organization with 45,000 members nationwide. We have followed the OCS leasing program since its first acceleration was announced in 1974 by President Nixon. At this hearing, NRDC is also speaking on behalf of Defenders of Wildlife, Friends of the Earth, the Wilderness Society, the Center for Environmental Education, and the Sierra Club.

To be frank, the environmental community is appalled by and opposed to Secretary Watt's 5-Year Leasing Program. We object to:

- the massive increase in acreage to be offered for lease;
- the streamlinging proposals which dramatically change OCS leasing procedures;
- the inadequate consideration of the proposal's environmental impacts in the Draft Supplement to the Environmental Impact Statement;
- the early and repeated offering of biologically productive frontier areas;
- and the Department's lack of responsiveness during program development to comments submitted by all interested parties.

In our view, this proposal represents a radical departure from OCS leasing as it has evolved over the past decade. The program is devoted to exploitation of the resource base with

no consideration of the consequences for the environment. Let me address these concerns one-by-one.

Scale of Program

In April of this year, Secretary Watt announced that within five years he intended to offer for lease entire planning areas totalling roughly 875 million acres of the Outer Continental Shelf. Now instead of offerings between 600,000 and 1 million acres, Interior will offer 9 to 100 million acres at one time.

This massive increase in offerings is based on the assumption that the oil companies will have greater flexability in developing their exploration strategies and will lease (therefore, inventory and explore) more acreage than they would under the current system.

This argument is a weak one. The oil companies, in their response to Interior, nearly unanimously rejected leasing of entire planning areas. Although they requested sales larger than those currently held, they objected to such a quantum leap. I have appended a number of letters which state their objections. Also, a number of GAO reports indicate that no matter how large an offering, only a small fraction of the tracts offered will be leased.*

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*/ General Accounting Office, "Some Issues Affecting Southern California Outer Continental Shelf Oil and Gas Lease Sale 48," May 5, 1980. GAO, "Lower Cook Inlet -- Another Example of More Data Needed for Appraising Outer Continental Shelf Oil and Gas Resources," June 8, 1978. GAO, "Outer Continental Shelf Sale 40 -- Inadequate Data Used to Select and Evaluate Lands to Lease," June 28, 1977. GAO, "Georgia Embayment -- Illustrating Again the Need for More Data Before Selecting and Leasing Outer Continental Shelf Lands," March 19, 1979.

On the other hand, the environmental consequences of offering entire planning areas are potentially very serious. DOI admits that the large scale offerings will preclude detailed environmental analysis of the offshore areas before a sale is held. Because no tract specific environmental information will be available, environmental safeguards cannot be designed for the unique characteristics of the tracts to be offered. Thus, existing mitigation tools, such as tract deletion and tract specific stipulations cannot be used effectively. Alternative mitigation techniques that might be used post-sale have not been described by DOI.

This 5 Year Program raises the question of whether the requirement in §18 of the OCSLA to balance expedited resource development with protection of the ma ine, coastal and human environments has been met. The environmental community believes that balance has not been achieved because all areas are to be offered with no consideration of their marine productivity or environmental sensitivity and no effective means of finding it out before a sale is held.

The planning area offerings were opposed by a majority of commenters on the April program. Despite these objections from all sides, the Department has not wavered in its decision. In fact it has not even seen fit to evaluate reasonable alternatives which might lie between one million and one hundred million acre offerings. We believe that the overwhelming negative reaction to area-wide offerings from the environmental

community, many of the affected states, and many in the oil industry, plus the requirements of the National Environmental Policy Act require that DOI examine alternatives to this proposal. We urge this Committee to request that DOI undertake such an analysis.

Streamlining

DOI has proposed fundamental changes in leasing procedures, known as streamlining, in order to accommodate planning area offerings within the 5-year time frame. First, DOI intends to abandon the current Call for Nominations and Tract Selection steps. The value of these steps is that they enable DOI to concentrate its environmental and hydrocarbon analyses on areas of high industry interest. The environmental community beleives these steps are essential because they enable us to concentrate our research on the value and distribution of biological resources in the area likely to be most affected. Local and state governments like the sale area to be narrowed down because the onshore impacts can be assessed more accurately if the specific area to be leased is known. Without these narrowing steps, the true impact of a sale cannot be adequately gauged.

Recognizing the difficulty of doing tract specific analysis for area-wide sales, Secretary Watt has proposed to abandon these analyses as the second part of the streamlining package. Tract specific environmental and resource assessments will not

be done. These will be addressed through general reconnaissance studies and some studies on tracts selected at random. Without tract specific hydrocarbon resource assessments, it is difficult to assess the potential oil and gas resources expected to result from the sale. It is in turn difficult, if not impossible, to evaluate the onshore socioeconomic effects, the likelihood, location and volume of potential oil spills, or the fair market value of the tracts being offered for lease. The draft program assumes that this information is not important. We think that it is. Our extensive comments on these issues are attached for your review.

A third streamlining proposal is to "tier" NEPA documents. We believe this proposal is a violation of the National Environmental Policy Act. DOI proposes to do a generic planning area EIS for frontier area sales. For subsequent sales, supplements would be written which only address new information since the first EIS came out. This new procedure does not promise to make the EIS's more specific, simply to provide current information. This change is a dramatic departure from tiering of NEPA documents as envisioned in CEQ's regulations. The purpose of tiering is to go from the general to the specific. Interior's description of tiering will not achieve this. NRDC has made extensive comments to DOI on the tiering issue which are attached for your review.

A further problem with this proposal is that the Bureau of Land Management and USGS still do not seem to know how the

streamlining will actually work. This is particularly true of the tiering of EIS's and evaluation of resource potential. We recommend that this committee request specific answers from DOI on these procedures.

The fundamental purpose of the streamlining steps is to hurry the sales along. Since the goal is to offer the entire OCS in 5 years, fundamental studies such as oil spill trajectories, hydrocarbon and geohazard evaluations, and site-specific environmental studies must not be allowed to stand in the way -- so goes the Interior philosophy. Its solution is not to modify these analyses, but to eliminate them.

The streamlining steps are only one element of DOI's efforts to emasculate the environmental impact analysis of the 5 Year Program. BLM's environmental studies program, which was designed to get specific information on the effects of OCS operations, is being cut 25% for fiscal year 1982 as well as redesigned.

The consequence of the streamlining action is that crucial environmental information will not be available in time for lease sale decisions. DOI is not bothered by this because it believes that post sale decisions can accomodate whatever arises. However, DOI's policy to push everything to the post sale stage runs counter to the purposes of the OCSLA which is to balance out conflicts before sales are held (Section 18). In addition, safety of offshore operations cannot be assured

without detailed presale environmental studies.*

We have no doubt that the new procedures will hurry the sales along so that Secretary Watt can reach his goal of offering the entire OCS for lease in 5 years. We also have no doubt that following these procedures will result in serious and irreparable harm to the marine, coastal and human environments which the Outer Continental Shelf Lands Act vows to protect (Section 102).

Supplemental Environmental Impact Statements

A primary reason for the environmental community's rejection of this new 5-Year Program is that the program documents which have come out since April, including the supplemental EIS, make little effort to assess the environmental consequences of the program or to explain what environmental safeguards will be instituted to minimize environmental harm.

The Supplemental Statement has a generic comment on the impacts of the new program -- that it will be greater than under the June 1980 schedule because more acreage will be

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*/ "Without a sound scientific basis for decision-making about environmental effects, it is not possible to conclude whether the technology now in use to control discharges provides or does not provide adequately for the safety of OCS operations. The leasing program of the Department of the Interior is not structured to establish that scientific basis in a timely fashion." Safety and Offshore Oil, NAS, p. 76.

"Government regulation should be made more predictable by providing that necessary background studies are completed and permit conditions established prior to the awarding of OCS permits and leases..." Id., page 84.

leased. That appears to be the sum of their analysis. The DSES does not examine the environmental effects of the streamlining proposals or analyze alternatives to these steps which might have less environmental impact. Our comments on the Draft Supplemental Statement are also being submitted into the record for your review.

Lease Schedule

The July schedule poses serious threats to the marine and coastal environments. Alaska, whose offshore areas have some of the most biologically productive waters and whose onshore areas are not organized or developed, will bear much of the brunt of the program as nearly half (16) of the sales (41) are scheduled for Alaska. The schedule moves up the dates and increases the size and number of sales in the most fishery rich regions of the OCS, including the North Aleutian Shelf, St. George Basin, and Georges Bank. Where three years had been left between sales to allow for the evaluation of exploratory findings and effects in planning for the second sale, the July 1981 schedule reduces this to two. In doing this, DOI further limits its ability to design environmental safeguards for the particular characteristics of each sale area.

DOI has also proposed changing the boundaries and names of various areas for no apparent reason. Serious consequences will result. Boundary changes in the North Aleutian Shelf will result in offering for lease the entire Bristol Bay, whereas

the earlier boundary was designed to protect this area's extremely vaulable salmon fishery. In addition, the proposed Diapir Field boundary will result in offering portions of the Chukchi Sea in 1982, three years earlier than previously planned. This is an area of extremely hazardous conditions for which the technology is not fully developed.

Interior's Lack of Responsiveness

One of our greatest concerns with the new Five-Year Program is that in its development Interior has demonstrated a complete lack of responsiveness to comments from interested parties. Let me explain why I believe this to be the case.

The original proposal was made public in April, 1981 -- comments due in May. Everyone diligently commented only to find out that the Supplemental Draft Impact Statement was in the process of being written. This statement is not at all responsive to the May comments, particularly in its omission of any discussion of alternatives to the streamlining proposals.

Two weeks before the comments on the Supplemental EIS were due (August 10th) Secretary Watt announced the draft proposed program (July 24th) that was subsequently sent to the Governors and to Congress. As before, this contained minor adjustments t, the schedule but no modifications to the streamlining proposals. We are now waiting to see whether the latest round of comments will have any effect on the program which will be issued in December.

We are of course concerned with the Department's apparent unwillingness to consider comments of concerned parties in the program's development stage. However, we are even more concerned about what this kind of insensitivity portends for the future. In the various prelease steps, there are numerous opportunities for comment. Likewise the exploration and and development plans are also available for public review. Will comments at each of these steps also be ignored? That is our concern.

Conclusion

The combination of the streamlining proposals and the accelerated yet less area-specific schedule will result in a giveaway of the OCS lands to the highest bidder. This proposed 5-Year Program abandons the procedures and safeguards that have been built into OCS leasing over the last decade, particularly through the amendments to the Outer Continental Shelf Lands Act. The environmental community recognizes the potential contribution that offshore oil and gas can make to the national energy picture. We believe this program can be conducted with sensitivity to the consequences for the environment. Secretary Watt's program does not have that sensitivity. We ask this Committee to review carefully its consequences.

Thank you for the opportunity to appear before this Committee.

Senator WEICKER. I will have some questions. We will take Lee's statement first before any questions.

STATEMENT OF LEE J. WEDDIG, EXECUTIVE VICE PRESIDENT, THE NATIONAL FISHERIES INSTITUTE

Mr. WEDDIG. Thank you, Mr. Chairman.

I just want to make one point in addition to the statement we have in the record.

We also have great potential. We heard this morning of the potential for decreasing our balance of trade and petroleum products and increasing the amount of energy available. The same type of potential exists for the fisheries industry and the people of the United States.

In the last 5 years our dependence on imports has gone down about 7 percent from 55 to 47 percent in a 5-year timespan. Our production has great potential as well. There still remains 60 percent of the fishery resources in the fisheries conservation zone that is being harvested by foreign fleets.

This industry has potential just as the petroleum industry. We know we must coexist. It is in the national interest to do so. We think we can coexist.

The only concern at the moment is when we hear about acceleration, we are apprehensive. We do not know exactly what is going to happen, the greatest potential for problems in the frontier areas.

As an industry we do not have the resources or the scientific capabilities to really assess the potential of problems and the possible destruction of the resource and so we depend on a Government agency and that is NOAA.

We are really concerned with the budget cutting that is coming up, whether NOAA will retain the capability of doing the monitoring that it has to do if it is going to be responsive when these various environmental statements and analyses of sales and so forth come up.

At this point in time we understand NOAA's work on analyzing the impact in the North Atlantic is being funded by the Department of the Interior. We can see a real scenario coming up where NOAA will not be asking for the money because they are getting it from another agency and we are not too sure that other agency will be asking for continuation of the funding.

The basic point is in your role in the appropriations area, somehow we would like to see it pinned down for sure that NOAA does have the money to keep this monitoring effort up and especially in the North Atlantic where we are going into new areas and we really do not know what is going to happen.

Thank you.

[The prepared statement of Mr. Weddig follows:]

STATEMENT OF LEE J. WEDDIG
EXECUTIVE VICE PRESIDENT
THE NATIONAL FISHERIES INSTITUTE

Before

THE SENATE SUBCOMMITTEE ON
CONSERVATION AND SUPPLY

On

PROPOSED FIVE-YEAR PLAN
FOR DEVELOPMENT OF
OUTER CONTINENTAL SHELF OIL AND GAS RESOURCES

October 6, 1981
Washington, D.C.

Mr. Chairman, I am Lee Weddig, Executive Vice President of the National Fisheries Institute and I welcome the opportunity to appear before the subcommittee today to discuss the impact of offshore oil and gas tract leasing on the United States seafood industry. The Institute is a national trade association representing more than 1,000 member companies which harvest, process and distribute fish and seafood products.

While the Committee has requested that our comments, in part, relate directly to the Department of Interior's proposed 5 year OCS leasing program, the Institute has not analyzed the ramifications of the program's emphasis on leasing in high potential areas and its provision for studying the possible offering for lease of all tracts within a large planning area. For that reason I would like to discuss more generally potential environmental impacts on fisheries and other ocean resources of offshore drilling. Clearly, we cannot overlook the potential impacts to the marine environment inherent in offshore oil and gas operations. Conversely the Institute is cognizant of the fishing industry's requirements for sufficient diesel fuel and gasoline for harvesting and shoreside operations. A partial response to this industry and other domestic industries' fuel needs is the orderly and safe development of our nation's offshore energy resources.

In view of the enormous significance of this nation's fishery resources the Institute supported the 1978 amendments to the Outer Continental Shelf Lands Act which provide, in part, a greater opportunity for interested federal agencies and the states to comment on proposed leasing programs. Since NFI does not have the technical capability to respond effectively to proposed leasing programs we have consistently requested the National Oceanic and Atmospheric Administration to intensively evaluate pending outer continental shelf actions and to submit appropriate comments to the Department of the Interior. NOAA's

involvement in the then pending Georges Bank resale resulted in the deletion of certain tracts from the sale and the establishment of a Biological Task Force.

Another important role for NOAA will be to assist in evaluating the effects of actual OCS activities in the frontier areas on fishing operations. Certainly weather conditions on the Georges Bank and in the Gulf of Alaska and the Bering Sea are quite different than the weather conditions in the Gulf of Mexico. As OCS activity expands in these areas what will be the impact of the necessary pipeline and other obstructions on the bottom and will the fishermen be compensated in a timely fashion for gear losses resulting from such obstructions?

I believe that balance is necessary in the orderly development of our outer continental shelf resources. A key ingredient in that balance is the acquisition of necessary information on environmental factors such as fisheries, marine mammals and other aquatic life that may be impacted by OCS operations. Another ingredient is adequate information on the available technology possessed by the oil and gas industry to safely produce oil and gas from offshore locations and transport that product to U.S. refining facilities. The information required to evaluate this balance should be obtainable through the environmental impact statement for each lease area, the permit process involving the U.S. Geological Survey, and a site-specific EIS for production from a specific lease area. By participating in this process the fishing industry, the states and other interested groups will be in a position to provide information to the Interior Department. Hopefully, the Secretary's leasing decisions will reflect the specific concerns of the marine environment.

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Senator WEICKER. That is also my concern. I think it is the concern of Ms. Beinecke and the organizations she represents.

What do you suggest? What do you suggest we insist upon if indeed the process goes forward? What is the best approach to assure there is environmental monitoring that is meaningful?

Ms. BEINECKE. Senator, over the past 5 or 6 years the environmental studies program has evolved to a point where the knowledge of the scientists who have been looking at it have recommended the studies be done prior to leasing to insure predictability of the effects of OCS leasing.

I think Interior's recent proposals have suggested pushing all the decisions post sale so that once the lessee has certain rights to the tract, then they will decide if certain mitigation should occur.

What we are seeking is that the Interior Department will maintain the responsibility of looking at the consequences of the operations before they give the tracts away.

Senator WEICKER. You think the Interior Department should have that responsibility or would you be satisfied if it was in the hands of NOAA?

Ms. BEINECKE. I think NOAA in Alaska is doing most of the studies. I think they should still do the studies.

Senator WEICKER. I think the point Lee raised is a valid one. NOAA is doing the studies at the request of Interior. If Interior does not request it or they do not have the money to request it, NOAA can do little about it.

Ms. BEINECKE. I think NOAA should be responsible for the studies. The point is Interior has to agree to get the information or making sure the information is obtained prior to the lease sale. They now have the ability to institute the mitigation technique. Unless the OCS Lands Act will change, they will still have that responsibility. They have to be required to institute mitigation prior to the sale. That is when they have the authority. Their authority diminishes as the lessee takes over the tract and then has certain rights to it.

Senator WEICKER. I think we are of one mind here in that I am certainly not going to allow the monitoring procedure to be in the hands of the lessee.

I think as a matter of practice and I do not lay this at the door of this administration because this was going on before, the rush toward developing offshore oil, many of the environmental safeguards were just plainly disregarded.

Ms. BEINECKE. Now it is much more blatant because they admit it through the streamlining proposals that they just are not going to bother.

Senator WEICKER. I agree with you on that point but what is also clear from the testimony we had in Boston on the Georges Bank issue is nobody had really done what they were required to do under the law environmentally.

Hopefully, we will have an opportunity to incorporate some ideas for the administration on this issue. That is why I am seeking your advice as to what you think would be the best approach, for example the fact there will be a report forthcoming from NOAA prior to the bidding process, during the operation process.

Is this more or less the nature of your recommendations?

Mr. WEDDIG. More or less, Senator. I think the biggest concern is that NOAA somehow have the ability to independently determine what it needs to do to fulfill its obligations and that that independence does not get lost in the shuffle of having its funding coming from another agency for this work.

Ms. BEINECKE. If NOAA were responsible for the studies, they would also have to have the authority to institute mitigation techniques that they found necessary. If all they do is get the information and Interior is still left with the responsibility of running the program, there is no assurance that Interior would use any of that information.

We do not think they use it right now. I am sure they would not use it in the future because these two agencies do not get along very well. It has been demonstrated time and time again on this program.

Senator WEICKER. Maybe that is the reason why Interior continually tries to take over NOAA.

Ms. BEINECKE. Yes.

Senator WEICKER. That will not happen.

Senator Murkowski?

Senator MURKOWSKI. Mr. Chairman, I just have one question with regard to the testimony objecting to or appalled by the 5-year leasing program.

In view of the administration's commitment toward a greater degree of energy independence, I am wondering with the conventional safeguards, check and balance of the public hearing, the environmental impact study and eventually the action of Congress, is it inappropriate to object recognizing in order for anything to happen, it has to be proposed and the Secretary is proposing and yet there is no assurance these leases are actually going to be issued and developed.

It is my observation that by no means are we throwing out the conventional safeguards in the system. If the public hearings indicate it is contrary to the public interest and if the environmental impact statements say it is environmentally unsound, Congress is going to take that information and be responsive to it.

All the Secretary is doing is making a proposal as a consequence of the present administration's desire to generate a higher degree of energy independence and a way to do it is obviously to put up public land for lease.

It seems we are objecting even to the proposal.

Ms. BEINECKE. That is incorrect, if that is the way it appears. We have been involved in monitoring the OCS leasing program for some years. We are opposed to the proposals Secretary Watt has made concerning his recommendations. We are opposed to the streamlining because we believe it will prohibit environmental information and safeguards from being developed.

I would refer you to the end of my statement because in the development of this proposal since April, many State governments, oil companies, and environmental groups have commented on this program and mostly opposed many of the streamlining provisions in the program even though it has been revised since then. None of these proposals have been modified in light of public comments.

Even though the public procedures will still be there, we do not have any confidence that they will result in any changes in the way Interior proposes to proceed. We are concerned with the 5-year program and we are concerned with what that will mean for individual lease sales.

We are aware the NEPA process will continue and public hearings will be held but we do not believe Interior will be very responsive to them in light of their apparent lack of responsiveness since this program was first proposed last April.

Senator MURKOWSKI. Mr. Chairman, I can only observe what I have observed. There appears there has been some change as a consequence of further examination. The public has expressed their views. The Department of the Interior and the Secretary have made certain changes.

I guess I would caution the committee to over react to a process that I think is part of the check and balance and then the pros and cons are debated as to the appropriateness.

Senator WEICKER. I can assure you that as I stated these hearings were to try to give balance to the problems presented to this country. I would say my concern right now leans to the total disregard of the environmental consequences which have taken place maybe as a reaction but it has occurred.

The fish stocks are just as important to this country as is the energy potential. That is why I pursued the question of how we can achieve that in any final plan. Regardless of what the law says, I think it is also important to point out that the law was totally disregarded on Georges Bank lease sale. There was no environmental monitoring.

I want to thank you both very much. If you have anything further for the committee, please do not hesitate to send it to the committee. We will certainly try to incorporate your valued views in any determination of the committee.

Thank you very much. The hearing is adjourned.

[Whereupon, at 10:40 a.m., the hearing was adjourned.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

JAMES A. MC CLURE, IDAHO CHAIRMAN
MARK O. HATFIELD, OREG.
LOWELL P. WEICKER, JR., CONN.
PETE V. DOMENICI, N. MEX.
MALCOLM WALLOP, WYO.
JOHN W. WARNER, VA.
GORDON J. HUMPHREY, N.H.
FRANK H. MURKOWSKI, ALASKA
DON NICKLES, OKLA.
JOHN P. EAST, N.C.
JOHN HEINZ, PA.
HENRY M. JACKSON, WASH.
J. BENNETT JOHNSTON, LA.
DALE BUMPERS, ARK.
WENDELL H. FORD, KY.
HOWARD M. METZENBAUM, OHIO
SPARK M. MATSUNAGA, HAWAII
JOHN MELCHER, MONT.
PAUL T. TSONGAS, MASS.
BILL BRADLEY, N.J.
MICHAEL D. MATHAWAY, STAFF DIRECTOR
CHARLES A. TRABANDT, CHIEF COUNSEL
D. MICHAEL HARVEY, CHIEF COUNSEL FOR THE MINORITY

United States Senate
COMMITTEE ON
ENERGY AND NATURAL RESOURCES
WASHINGTON, D.C. 20510

October 1, 1981

Randy Randol
Associate Washington Representative
Exxon Corporation
1899 L St., N.W.
Suite 1100
Washington, D. C. 20006

Dear Mr. Randol:

The Subcommittee on Conservation and Supply of the Senate Committee on Energy and Natural Resources has scheduled a hearing on Tuesday, October 6, 1981 to receive testimony concerning the Department of Interior's proposed 5-year plan for development of outer continental shelf oil and gas resources. I have enclosed a witness list for the oversight hearing which will be held at 8:30 a.m. in Room 3110 of the Dirksen Senate Office Building.

Although the Subcommittee will receive oral testimony from industry witnesses, it is our strong interest that written comments be provided outlining your company's specific views on the 5-year plan and related issues. In order that your comments be compiled with the hearing record it is requested that your written comments be submitted to the Subcommittee no later than Tuesday, October 20, 1981.

Should you have questions, please contact Gary Barbour, Professional Staff Member, 3204 Dirksen Senate Office Building, Washington, D. C. 20510, phone number (202) 224-0613. I thank you in advance for your cooperation on this matter of mutual interest.

Sincerely,

Lowell P. Weicker, Jr.
Chairman
Subcommittee on Conservation
and Supply

LPW:gb

EXXON COMPANY, U.S.A.
POST OFFICE BOX 2180 · HOUSTON, TEXAS 77001

EXPLORATION DEPARTMENT

J. D. LANGSTON
VICE PRESIDENT

October 15, 1981

Senator Lowell P. Weicker
Chairman, Subcommittee on Conservation and Supply
Energy and Natural Resources Committee
3204 Dirksen
Washington, D. C. 20510

Dear Senator Weicker:

Exxon is pleased to see the interest expressed by the Conservation and Supply Subcommittee about the proposed 5-year oil and gas leasing program. We believe this interest should be shared by all Americans concerned for the management of our nation's resources.

Over the past few years, as debate centered first around the current leasing program and now the Reagan Administration's newly proposed program, Exxon has expressed its viewpoints in testimony, letters and written comments as a company actively engaged in all areas of the oil and gas industry in the OCS. I would like to take this opportunity to summarize for your subcommittee our views regarding various aspects of Interior's proposed 5-year plan.

The proposed schedule of sales over the next five years is a good schedule. The primary departures from past practice are the greater number of sales in the Gulf of Mexico, the slight overall acceleration in sale timing, and the inclusion of second sales in some of the Alaska basins. This schedule wisely recognizes that leasing procedures can and should be speeded up in consideration of the long lead times required to bring a discovery onstream in deep water or remote, harsh OCS environments.

We believe Interior's planning area wide approach is another beneficial departure from past OCS procedure. The concept of initial large-scale environmental analyses using currently available data plus subsequent study efforts focused on those areas where exploration and development are most likely to occur will improve the environmental study process and enhance the depth and quality of the resulting analyses.

In addition, the enlarged lease offerings envisioned by Interior's new program will increase the amount of critically needed high potential frontier acreage that can be evaluated over the next few years. This is in keeping with Exxon's conviction that our nation needs to know the extent of its resources so we can rationally plan our energy future. We believe that, regardless of the size of these initial frontier area offerings, industry's actual bids will result in high grading of the areas on the basis of perceived tract quality. Therefore, the size of the lease offerings will be of less significance than a basin's overall prospectiveness and the technological capabilities required for its exploration.

We appreciate the concerns expressed over the impact that OCS development could have in these frontier areas. However we believe that most of the causes for these concerns are largely groundless. The industry has operated for many years in the Gulf of Mexico, building a record of excellent environmental management. In addition we have coexisted with both recreational and commercial fishing interests to our mutual benefit.

Interior's proposed 5-year program is a definite and, we believe, necessary departure from the past, both in timing and in scope. While the program represents a challenge to industry, Exxon believes this challenge will be met in a beneficial and environmentally sound manner. We welcome your subcommittee's continued interest.

Very truly yours,

J. D. Laytham

JDL:cw

Shell Oil Company

Woodcreek
200 North Dairy Ashford
P. O. Box 576
Houston, Texas 77001

R. H. Maitz
Vice President
Exploration and Production
Western Operations

October 20, 1981

The Honorable Lowell P. Weicker
Chairman, Subcommittee on Conservation
and Supply
United States Senate
Washington, D. C. 20510

Dear Senator Weicker:

Your letter of October 1, 1981, to Mr. Jess Johnson, regarding the views of Shell Oil Company on the proposed 5-Year OCS Lease Sale Schedule, has been referred to me for reply.

Since 1974, we have testified many times before the DOI, the Ad Hoc Select Committee on the Outer Continental Shelf, and other groups regarding the pace and location of lease sales in the OCS. Throughout this seven-year period we have consistently urged that lease sales in the frontier areas of greatest potential be held at the earliest possible date. We have recognized from the beginning that the discovery and development of the potentially large oil and gas resources in these areas were critical to the economic health and military security of the United States.

The development of a sound energy policy requires comprehensive knowledge of our resource base. The evaluation of the OCS is a critical step in obtaining an inventory of our domestic oil and gas reserves, because the OCS is estimated to contain about half of the total U.S. oil and gas yet to be discovered.

As stated in our testimony before the Bureau of Land Management on July 24, 1981, Shell is highly encouraged by the Department of Interior's proposed Five-Year Leasing Schedule which effectively combines three necessary elements:

- Increased quantity and quality of offered lands,
- Earlier re-entry into high potential areas, and
- A streamlined leasing process.

The program recognizes the high potential areas and provides early sales in these areas. It also provides for repeat sales which will enhance exploration strategy and operating efficiency. We support the use of the streamlined leasing process which will permit more efficient administration of the leasing schedule. Shell is convinced that this schedule can be executed in an environmentally safe manner. There appears to be no argument among the majority of Americans that there is a national need for early evaluation of our OCS resources, and we believe a leasing schedule along with new administrative procedures has been proposed to address this.

With regard to industry's ability to execute the proposed schedule we would like to address two points:

1) Can the industry meet the demands of the proposed schedule in the period 1982-86?

2) Can the schedule be conducted in an environmentally sound manner?

On the first point, with a firm schedule as the basis for planning, the industry and its critically important support services can and will marshall the necessary manpower, capital, equipment, and technology. The history of OCS development bears this out. This is the testimony of the vast majority of offshore operators and the support services. As a matter of fact, much of the necessary geophysical surveying has already been done. In addition, industry has already developed technology for production in frontier regions up to 100 feet of water depth in ice-covered areas and 3,000 feet in other areas. This technology is adequate for almost all of the areas to be leased in the next few years.

On the critical second point, the conduct of operations in an environmentally sound manner, we believe that the safeguards mandated by law and regulation and the procedures being adopted in administering the schedule itself make certain of this insofar as it is possible to do so. The supervisory skills of the DOI and the experience of the industry in developing 9% of the nation's oil supply and 23% of its natural gas in offshore operations without any permanent damage to the shoreline at any location, speaks for itself. There will be some impacts, of course, but they should be minimal and manageable.

In summary,

- We support the goals of early OCS resource assessment and development, in order to inventory the Nation's resources and minimize dependence on foreign sources,

- We support a revision of the current June 1980 schedule with the adoption of the July 1981 proposed schedule,

- We support the offering of more and higher potential areas on a continuing basis,
- We support large acreage offerings along with the new streamlined leasing process,
- We support the environmental safeguards built into the leasing process, and
- Delays of sales in highly prospective areas are not in the national interest.

Industry has or can develop the necessary capability to carry out the program in terms of technology, manpower and capital formation with a firm schedule and sound government policy.

We appreciate the opportunity to submit our views and will be happy to discuss further with you any questions you may have.

Yours very truly,

R. H. Mayer

RLW:AGH

R. R. Burke
Vice President
Production Exploration, U.S. & Canada

Marathon
Oil Company

Findlay, Ohio 45840
Telephone 419/422-2121

October 19, 1981

Senator
Lowell P. Weicker, Jr.
Chairman
Subcommittee on Conservation and Supply
Committee on Energy and Natural Resources
United States Senate
Washington, D.C. 20510

Re: Department of the Interior
Proposed 5-Year OCS
Oil and Gas Leasing Program

Dear Mr. Weicker:

The Senate Subcommittee on Conservation and Supply has requested Marathon's views on the Department of Interior's Proposed 5-Year OCS Oil and Gas Leasing Program, published in the Federal Register on July 31, 1981. Marathon Oil Company has filed with the Department a comment letter, dated October 17, 1981, in which it expresses its views on the Department's proposed program. In response to the Subcommittee's request, Marathon is hereby providing you with a copy of that comment letter. Please be advised that Marathon also is providing the Subcommittee on Panama Canal and Outer Continental Shelf of the House Committee on Merchant Marine and Fisheries with a copy of Marathon's comment letter.

Thank you for this opportunity to submit Marathon's views.

Sincerely,

R. R. Burke
Vice President
Production Exploration
United States and Canada

RRB:DLF:jas

R. R. Burke
Vice President
Production Exploration, U.S. & Canada

Marathon
Oil Company

Findlay, Ohio 45840
Telephone 419/422-2121

October 17, 1981

Director
Office of OCS Program Coordination
Department of the Interior
Room 5150, 18th and E Streets, N.W
Washington, D.C. 20240

Subject: Proposed 5-Year OCS
Oil and Gas Leasing Program

Dear Sir:

On April 17, 1981, the DOI published in the Federal Register a Request for Information on Proposed Changes in the Offshore Leasing Program ("Proposed Changes") under consideration at that time. 1/ Marathon responded by submitting a comment letter to the DOI on May 22, 1981. 2/ In that letter Marathon supported DOI's effort to promote timely and efficient exploration of the nation's OCS resources. Marathon expressed concern, however, that the Proposed Changes modified too greatly the DOI's Final 5-Year OCS Oil and Gas Leasing Schedule issued in June, 1980 with respect to scheduled sales for which companies had already planned information gathering and other pre-sale activities. Marathon also commented on the appropriate size and frequency of OCS lease sales and the DOI's policy of tract evaluation and rejection of bids in OCS lease sales.

1/ Proposed Changes in Offshore Leasing Program; Request for Comment, 46 Fed. Reg. 22468-22474 (April 17, 1981).

2/ Letter of R. R. Burke, Vice President, Production Exploration, U.S. & Canada regarding "Request for Information on Proposed Changes in Offshore Leasing Program," dated May 22, 1981.

On July 31, 1981, the DOI published in the Federal Register a Proposed 5-Year OCS Oil and Gas Leasing Program ("Proposed Program") for 1982 through 1986 which affords interested persons another opportunity to comment. 3/ Marathon has reviewed the Proposed Program and again wishes to commend the DOI's efforts to improve the current leasing schedule and promote timely and efficient exploration of the nation's oil and gas resources. Marathon, however, does wish to comment on the Proposed Program with respect to timing of lease sales, size and frequency of sales, duration and size of leases, and tract evaluation and bid rejections in OCS lease sales.

Timing of Lease Sales

Marathon generally concurs with the time schedule of the Proposed 5-Year OCS Oil and Gas Leasing Schedule published on July 31, 1981. Marathon especially appreciates the DOI's effort to account for already planned pre-sale activities, such as C.O.S.T. wells, in its timing of some of the earlier sales on the schedule.

Recent information, however, indicates that certain sales offshore California and western Alaska could take place even later than indicated by the "Proposed Schedule." Marathon opposes any further delay of these sales. Marathon feels these are areas with high potential for oil and gas which should be offered for lease and explored as soon as possible. Marathon believes the industry for years has demonstrated it can explore and develop the nation's offshore oil and gas resources without damaging the environment or coastal industries. There is simply no reason, therefore, to further delay these sales.

3/ Proposed 5-Year OCS Oil and Gas Leasing Program, 46 Fed. Reg. 39226-39231 (July 31, 1981).

Size and Frequency of Sales

Marathon supports the goal of accelerated exploration and production of the nation's OCS oil and gas resources. Because of this, Marathon supports an OCS lease sale schedule which offers for lease promising acreage in a timely and efficient manner. Marathon also supports efforts to eliminate delays in lease sales and exploration and development caused by inefficient regulatory processes and lawsuits designed to prevent or delay exploration and development of the OCS. Marathon, however, strongly urges the DOI not to pursue an OCS leasing program which offers entire planning areas of up to 100 million acres in single offerings.

In past lease sales the DOI has at times failed to offer tracts, and sometimes entire areas, which should have been offered if the OCS is to be explored and developed in a logical and efficient manner. Also, the DOI's past practice of rejecting bids for one or more tracts on a structure while leasing other tracts on that structure has been a prime contributor to this problem. Marathon does not feel, however, that the offering of entire OCS planning areas at one time is the proper solution to this problem.

Marathon could be described as an intermediate size oil company which we believe has an excellent history of safely and efficiently exploring for oil and gas in the OCS. Marathon has actively explored offshore since before enactment of the Outer Continental Shelf Lands Act of 1953. Since 1953 Marathon has actively participated in the search for more oil and gas reserves in the Gulf of Mexico, East Coast, West Coast, and Alaskan areas of the OCS. Marathon wishes to continue its active participation, provided it can do so in a competitive fashion.

Marathon is very concerned, however, that it will not have the resources to evaluate acreage and effectively bid in sales offering planning areas of up to 100 million acres at one time. The average size of the proposed planning areas is approximately 54 million acres. By contrast, the largest offering since 1953 has been less than 3 million acres. If eight lease sales averaging 54 million acres each are held each year, Marathon would be attempting to evaluate approximately 432 million acres per year. Such offerings are simply too extensive for the evaluation, capital, and operating capabilities of Marathon.

Medium- and smaller-sized companies such as Marathon, by far the greater proportion of bidders on the OCS, have limited manpower, data gathering, and technical capabilities. It would exceed these companies' ability to adequately evaluate prospective acreage if lease offerings exceed about three million acres and are held more often than about six times per year. These companies would be forced to either bid on an almost random basis or refrain from both evaluating and bidding on vast amounts of acreage. Thus, offering entire planning areas eight or nine times per year could seriously impede Marathon's ability to compete for OCS leases, and reduce competition on the OCS.

In addition, to maximize efficient exploration and development it is necessary to use the best scientific evidence possible so companies can acquire and explore in a logical manner the best potential leases in an area. Area-wide offerings carry the potential for diffusing exploration efforts into areas with less relative scientific merit, thus delaying recovery of the nation's OCS oil and gas resources and increasing the cost of that recovery.

Marathon believes it would be far better to offer acreage in about six offerings per year of compact areas of about three million acres each. These areas should be designed to include all tracts in which the industry, according to the geologic information it has available, feels should logically be included in the offering to allow for efficient and effective development of that area.

The industry could supply this information in response to the Call for Information contained in the Proposed Leasing Schedule. The DOI could request industry to nominate areas of interest in a particular planning area. The DOI could then select a compact area of about three million acres after reviewing the industry's nominations. After this area selection is made, industry could again submit comments as to whether any tracts necessary to efficient exploration and development had been left out. If so, the DOI could amend the area selection to include these tracts at the earliest possible date and include them in the Proposed Notice of Sale. The DOI could then offer this entire compact area for lease. Assuming DOI does not reject any bids, industry

would be able to lease a large, compact area and proceed to explore and develop it in a logical and efficient manner. At the same time, competition on the OCS would be assured.

Marathon feels that such a system will achieve the DOI's goal of insuring that OCS acreage is offered in a manner designed to promote logical and efficient evaluation, leasing, exploration, and development of the oil and gas resources present. At the same time, it will not overtax the ability of medium- and smaller-sized companies such as Marathon to evaluate acreage offered and effectively compete in the bidding for that acreage.

Duration and Size of Lease

Marathon also wishes to comment on the duration of primary lease terms and the appropriate size of individual lease blocks. Marathon urges the DOI to offer with primary lease terms of ten years acreage in areas of deep water or hostile environment. Hopefully, a ten-year term will provide industry the time it needs to explore for oil and gas, and provide for production facilities.

In addition, Marathon recommends that the size of individual lease blocks in such areas be no greater than four contiguous OCS tracts, or about 22,772 acres. Keeping lease blocks at or below this maximum size would result in a three million acre area being offered in no fewer than 130 individual lease blocks. If no fewer than 130 individual lease blocks are offered and a sale's size approximates three million acres, adequate competition for the lease blocks would be assured. Also, by leasing the areas of interest in no fewer than 130 lease blocks, the BLM can assure diversity of ownership. This will assure that a diversity of geologic interpretations will be applied to the exploratory effort in the area and, therefore, more thorough exploration.

Conversely, if a three million acre area were offered in lease blocks of 100,000 to 150,000 acres, the entire acreage would be leased in less than 20 to 30 lease blocks. Marathon believes this could reduce competition. A company with more limited resources may be forced to commit those resources to one or two leases in one area and refrain

from bidding seriously on others. Also, only one company's geologic interpretations would be applied to the exploratory effort for the entire 100,000 to 150,000 acre block. If that company for some reason placed a low priority on the 100,000 to 150,000 acre block, exploration may not take place as soon as it would if more companies, each with different interpretations and priorities, own a part of the 100,000 to 150,000 acre area. Finally, the exploration effort may not be as thorough, resulting in the discovery of less oil and gas.

Tract Evaluation and Bid Rejection

The DOI formally submitted its Proposed Program to the House of Representatives in a July 24, 1981 letter to the Honorable Thomas P. O'Neill, Jr., Speaker of the House of Representatives. Attachment 5 of that letter contains a discussion of fair market value, tract evaluations, and bid rejections on the OCS. Marathon wishes to offer the following comments on these matters.

Marathon opposes the DOI's practice of rejecting legitimate high bids for OCS tracts because the amount of the bid is too low when compared with the Department's evaluation of that particular tract. Marathon believes that DOI evaluations are unnecessary to insure the public a fair and equitable return for the nation's OCS resources.

Marathon commends the DOI for its recognition in Attachment 5 that OCS lessees have not earned surplus profit on the OCS and that the OCS lease market has yielded fair market value to the government. Attachment 5 points out that a Department of Energy study completed in July, 1980 concluded "there is no evidence of strategic underbidding for OCS leases and that all of the studies of the profitability of OCS leases indicate that the government has received fair market value." 4/

4/ Letter to the Honorable Thomas P. O'Neill, dated July 24, 1981, at page six of Attachment 5.

In addition, a review of the Mead and Sorenson study referred to at page six of the Attachment indicates that the federal government has captured more than "fair market value" for OCS leases in the Gulf of Mexico. 5/ Mead and Sorenson analyzed 1223 leases issued in 17 OCS lease sales in the Gulf of Mexico held over the years 1954-1969. The study determined that 62% of all leases were abandoned without production and another 15% were productive but were not economic. For all 1223 leases, the average internal rate of return was 11.43% before corporate income tax. This return is far below the average return (1954-1976) of all U.S. manufacturing corporations of 19.81%. Of course, oil and gas exploration and development in the OCS entails much more risk than manufacturing operations. This study reveals that industry has made an inadequate rate of return on the OCS and that the federal government, therefore, has captured more than its "fair market value."

All of these Gulf of Mexico sales were conducted in areas which were offshore extensions of the existing producing areas onshore Texas and Louisiana. Greater presale geologic data was available; hence, these sales had much less risk than those in frontier areas. The table below indicates that perhaps only one out of 50 or more leases in frontier areas can be expected to be profitable. Exploratory drilling results in these areas conclusively show that industry has thus far obtained a negative return on investment.

5/ "Competition and Performance in OCS Oil and Gas Lease Sales and Lease Development, 1954-1969," Walter J. Mead and Phillip E. Sorenson, March 1, 1980, under USGS Contract No. 14-08-001-16552.

Frontier Areas	Date of Sale	No. of Leases Issued	Bonus Paid to Government ($MM)	Results of Drilling to 8-1-81
Eastern Gulf of Mexico	1973	87	1,490	No Production Found
California	1975	56	417	Only 3-4 Leases May Be Profitable
Gulf of Alaska	1976	76	559	No Production Found
Mid-Atlantic	1976	93	1,127	3 Leases May Be Profitable
Lower Cook Inlet, Alaska	1977	87	398	No Production Found
South Atlantic	1978	43	100	No Production Found
TOTALS	-	442	4,092	6-7 Leases May Be Profitable

Also,the fact that a high bid is lower than the Department's evaluation simply does not mean the bid does not represent fair market value for the tract. The only true assessment of fair market value of a particular OCS tract is the value given it by expert oil and gas explorationists forced to place a value on it in a free market, competitive bid situation after evaluation of the tract. 6/ In such

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6/ Marathon notes that the sale of OCS leases does not take place in an environment of true free-market competition. While there are many bidders for OCS leases, the United States government is the only seller of those leases. The government, therefore, has a monopoly on OCS leases. This may explain to a large degree why, as indicated, the government has been able to extract more than fair market value for its OCS leases.

an environment, there is simply no reason whatsoever for tract evaluations or rejections of bids. Indeed, to reject a bid as too low is tantamount to asking as many as 50 or more experts for their opinion of an item's worth, having them agree that it is not worth over a certain sum, and then rejecting their assessment as too low because one other expert, no more qualified, believes a higher assessment is more accurate. 7/ Of course, this simply does not make sense.

The ultimate value of any tract is never known prior to actual exploration and development. The presale value of a tract is nothing more than a scientific estimate. Even when numerous potential bidders utilize essentially the same geological and geophysical raw data prior to a lease sale, the interpretation of that data and hence the estimated presale value of each tract varies widely among potential bidders. A cursory review of bidding in other sales indicates that differences in presale evaluations by potential bidders cause some tracts to receive bids from some companies while other potential bidders do not bid on these tracts at all. The inaccuracy of presale evaluations is even more vividly demonstrated by the extremes of bid levels placed on the same tract. Frequently the same tract will receive dollar bids ranging from hundreds of thousands to tens of millions.

Also, the tract-by-tract evaluation approach ignores the normal operation of oil and gas exploration and development. It must be recognized that when the oil industry bids on OCS leases, it is not the same as bidding on tangible goods the value of which can be readily assessed in terms of potential returns on investment. When a manufacturing

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7/ Although a tract may receive only one bid in any given sale, this does not mean that only one expert has evaluated that tract. Many more experts have evaluated the tract. The fact that only one company chose to bid means that the other experts set the relative value of the tract so low as to not warrant submission of a bid.

company invests in capital goods, it fully expects to earn a profit on each individual investment. However, when an oil company invests in OCS leases, it cannot readily assess the potential return on each individual investment. In fact, an oil company can expect that a majority of its individual OCS investments will be total losses. The oil company must rely on high profits from some individual investments to pay for the losses on the others.

A few tracts may ultimately be highly profitable, which would result in an unusually high rate of return when calculated on a single lease. But it is just such an expectation that constitutes the economic justification for any company to participate in exploration of the OCS. High profits from a successful lease are needed to absorb the costs, both lease bonus paid to government and exploratory costs, for the vast majority of leases that fail to be profitable. It is only the high profit lease that can provide an adequate rate of return calculated on the aggregate of the company's OCS exploration efforts, both successes and failures. The fact that a company achieves a high rate of return on one lease does not mean, therefore, that the United States is not receiving a fair and equitable return on the resources of the Outer Continental Shelf taken as a whole.

Marathon feels that tract evaluations and bid rejections simply are unnecessary to insure the public fair market value for the nation's OCS resources and insure competition on the OCS. Marathon urges the DOI to discontinue this practice and accept in the future all legitimate high bids for OCS leases.

Conclusion

Marathon commends the DOI for its forthright efforts to improve the OCS leasing schedule and to minimize delays in OCS leasing. However, Marathon strongly urges the DOI not to adopt the drastic measure of offering entire OCS planning areas in single lease offerings. Instead, Marathon urges DOI to offer promising acreage in a reasonable and timely manner which does not exceed Marathon's and

other medium- and smaller-sized companies' abilitiy to evaluate and effectively bid for the acreage offered. Finally, Marathon urges DOI to accept in the future all legitimate high bids for OCS leases.

Sincerely,

R R Burke

R. R. Burke
Vice President
Production Exploration
United States and Canada

RRB:DLF:jas

NATIONAL WILDLIFE FEDERATION, 1412 Sixteenth Street, N.W., Washington, D.C. 20036 (202) 797-6842
Office of the Executive Vice President

JG

October 22, 1981

The Honorable Lowell P. Weicker
Chairman
Subcommittee on Energy Conservation
and Supply
3204 Dirksen Senate Office Building
Washington, D.C. 20510

28 OCT 1981

Dear Senator Weicker:

Please enter the enclosed statement by the National Wildlife Federation into the hearing record of October 6 on the proposed Five-Year Offshore Oil and Gas Leasing Program.

Thank you for this opportunity to comment.

Sincerely,

Jay D. Hair

JAY D. HAIR
Executive Vice President

Enclosure

NATIONAL WILDLIFE FEDERATION
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October 22, 1981

Statement of the National Wildlife Federation
to the Senate Energy Committee
Subcommittee on Energy Conservation and Supply
on the July 1981 5-Year Offshore Oil and Gas Leasing Program

The National Wildlife Federation (NWF) appreciates the opportunity to submit the following statement on the Department of Interior's proposed 5-Year Offshore Oil and Gas Leasing Program. NWF is the nation's largest conservation organization with over 4.5 million members and supporters. The Federation is dedicated to the wise use and management of our nation's natural resources, including our ocean resources.

The National Wildlife Federation opposes the schedule revisions and "streamlining" procedures outlined by the Department of Interior. The proposed changes in the 5-Year OCS Oil and Gas Lease sale schedule represent a radical departure from previous environmental practices and prudent development of the Outer Continental Shelf (OCS). Pre-lease procedures such as tract selection and assessment are not possible under the expanded schedule. As a result, needed tract-specific information on hydrocarbon potential, geological hazards and environmental resources will be unavailable. These procedures were intended to balance the conflicting uses of the offshore region. Their elimination results in an unbalanced program of exploitation of the

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oil and gas resources without regard to fishery, wildlife, and other resources. While the development of oil and gas resources represents a one-time windfall, these other resources are renewable and will continue to benefit generations to come if properly managed. The National Wildlife Federation is not opposed to offshore oil and gas development, but believes that a responsible program should recognize the multiple values of the offshore region. It is our opinion that this radical leasing program does not represent proper stewardship of the many and varied resources of the Outer Continental Shelf and, therefore, we oppose it.

Area-Wide Analysis

Streamlining is a laudable goal which NWF certainly does not object to in principle. However, serious harm can result from improper streamlining that does not continue to balance the conflicting uses and values of the OCS. Unfortunately, the streamlining procedures outlined by DOI fall far short of maintaining this necessary balance.

NWF is particularly concerned about the adoption of extremely large planning areas and the elimination of tract selection procedures which will make it virtually impossible for DOI, or anyone else, to obtain tract specific information. If areas are so large that they defy detailed analysis, state and coastal planners cannot predict the likely impact of offshore development. Thus, one of the primary reasons for having a schedule in the first place is defeated. Offshore development

involves considerable onshore impact. Support facilities for offshore rigs and the additional personnel required to run them, place heavy burdens on land, housing, water supplies, and other community services. Without more definite information on the location and magnitude of offshore activity, local planners cannot prepare adequately.

Area-wide analysis is useful in identifying the scope of the anticipated activity, but it is not useful in identifying specific impacts, or possible mitigation alternatives. This identification is particularly important when dealing with biological resources. In general, biological resources are not uniformly distributed throughout a region, but found concentrated in localized areas. In effect, they are site-specific. Therefore, an analysis that does not deal with site-specific impacts is likely to be inadequate in assessing the true effects of the proposed activity--in this case, oil and gas exploration. The impacts on tract-specific resources will be lost in the generalities of a large-scale analysis.

It is not enough to ascertain generic effects of drilling mud discharges, oil toxicity, etc., as Interior proposes. These effects must be determined for organisms and ecosystems of different sensitivities. A small oil spill in the middle of the Gulf of Mexico may have minor impact, but the same spill in Bristol Bay, or another ecologically-sensitive and fishery-rich area, could be devastating. Based on these considerations, Interior should continue site-specific analysis and impact study through tract selection and assessment. Planning areas should be limited to a size that allows such analysis.

Tract Selection

Tract selection is necessary to narrow the focus of information collection from broad areas to specific tracts. Through this focus, knowledge is improved and important biological resources, geological hazard zones, and hydrocarbon potential are determined on a tract-by-tract basis. Without tract selection, Interior's ability to detect which tracts contain significant fish and wildlife resources is impaired. It is likely that these resources, such as important habitat, spawning areas, nurseries, and breeding sites, would conflict with oil and gas exploration.

Such conflict requires that mitigation measures be implemented to reduce the impact of exploration activity on sensitive resources. These measures range from lease stipulations on drilling procedures to tract deletion. The elimination of tract selection precludes Interior from identifying when mitigation measures are necessary. As a result, the expense of complying with mitigation measures will be increased, since equipment and operating procedures will have to be retrofitted. In addition, the costs of delay as mitigation measures are being implemented could be substantial. NWF is concerned that this added burden could reduce the incentive to require mitigation measures with resultant harm to the resources in question. We are also concerned that while Interior maintains that mitigation can be determined at later stages of development, the proposal does not explain what process will be used to determine the mitigation measures, or how those measures will be implemented.

The risk of spills or accidents is also greatly increased without tract-specific information. Knowledge of geological formations, particularly in frontier areas where little or no drilling has occurred, is not extensive. Therefore, regions with shallow high pressure zones, as well as other hazard areas prone to blow-outs, may not be known prior to leasing.

In addition, knowledge of hydrocarbon potential will be less precise without tract-specific analysis. This will result in greater uncertainty about potential yield, and lead to lower bids. Competition for leases also will be reduced by the increased supply brought about by area-wide offerings, further lowering bids. The only result possible in these circumstances is a decrease in public revenues, since DOI will not have adequate information to ensure receiving fair market value. In these times of budget austerity, this loss of revenue is unjustified and one of the most alarming components of this program.

Proposed Schedule

The proposed leasing schedule will make virtually the entire one billion acres of Outer Continental Shelf available for lease over the next five years. To put such a figure in perspective, approximately 20 million acres have been leased since offshore drilling began in the 1950's. In order to accomplish this goal, accelerated and repeated leasing of some of the nation's most ecologically-valuable and fishery-rich areas is planned. Often these are unique areas of high biological productivity, supporting large concentrations of wildlife, marine

mammals, and sport and commercial fisheries. Prior to this revised leasing schedule, areas of high biological productivity and importance were scheduled for lease later than areas of less significance. This allowed more time to gather information on possible impacts and prepare mitigation plans to protect these sensitive resources. The revised schedule advances the sale date of several of these areas, in spite of low hydrocarbon potential.

A prime example is the North Aleutian Shelf. One of the most biologically productive areas of the world, the North Aleutian Shelf is an extremely valuable crabbing and sockeye salmon fishery. Yet it is being offered for lease despite the lowest predicted levels of hydrocarbon resources of any area scheduled for lease. It is not justifiable to risk such valuable and renewable resources for the one-time development of low quantities of oil.

NWF believes that areas of high biological productivity or ecological richness should be deleted from the sale, or at the very least, delayed, until studies can determine the potential impacts of OCS activities and possible mitigation measures.

Environmental Information

It is particularly important, given the unknowns of this accelerated leasing schedule, that environmental information be generated in a timely fashion. The potential environmental

effects of drilling and production activities on the biological resources of the OCS are uncertain, particularly for frontier areas. Instead of advancing the environmental studies schedule to meet this accelerated demand for information, DOI has proposed a decrease in funding for the OCS Environmental Studies Program. A twenty-five percent cut in BLM's study funds for fiscal year 1982 has been proposed already -- $37.5 to $27.8 million. There may be more cuts in the future. It is particularly important in frontier areas to develop the baseline studies now, before oil-related activities begin, in order to have a benchmark upon which to base future studies and determine impact. Only through proper scientific study can DOI determine what levels of hydrocarbon development are compatible with natural resources. At a time when the need for environmental information is more crucial than ever to make informed decisions on lease offerings and stipulations, Interior is reneging.

Rapid Re-entry

This problem is further compounded by the rapid re-entry schedule into frontier areas. The proposed 2-year delay between first and second sales is not adequate for gathering and reviewing data on the initial effects of OCS exploration. In most areas, drilling will have just started by the end of two years, particularly in Alaska where drilling will be seasonal in many cases. Yet Alaska is one of the most critical areas where this data is needed. At the very least, the present 3-year delay should be retained.

Conclusion

The National Wildlife Federation believes that the proposed 5-Year Program is an unnecessary departure from environmental considerations and safeguards. We believe that a program can be devised to take advantage of the potential contribution that offshore oil and gas can make to our nation's energy needs, while at the same time being sensitive to the needs of the environment. The lack of balance between resource development and resource conservation exhibited by this proposal is alarming. We urge this Committee to express its concern for the consequences of this accelerated and expanded program on federal revenues, and the fish and wildlife resources of the Outer Continental Shelf.